

A. 7 (A)

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
In Re:

Chapter 11

LEHMAN BROTHERS Case No. 08-13555 (JMP)
HOLDINGS, INC., et al, (Jointly Administered)
Debtors.

-----x
* * *HIGHLY CONFIDENTIAL* * *

DEPOSITION OF NANCY DENIG

New York, New York

August 21, 2009

Reported by:

MARY F. BOWMAN, RPR, CRR

JOB NO. 24044

Page 2	Page 3
<p>1 2 3 4 5 August 21, 2009 6 9:35 a.m. 7 8 9 Deposition of NANCY DENIG, held at 10 the offices of Jones Day, LLP, 222 East 41st 11 Street, New York, New York, before Mary F. 12 Bowman, a Registered Professional Reporter, 13 Certified Realtime Reporter, and Notary Public 14 of the State of New York. 15 16 17 18 19 20 21 22 23 24 25</p>	<p>1 2 APPEARANCES: 3 JONES DAY, LLP 4 Attorneys for Lehman Brothers, Inc. 5 222 East 41st Street 6 New York, New York 10017-6702 7 BY: WILLIAM J. HINE, ESQ. 8 GEORGE E. SPENCER, ESQ. 9 10 BOIES, SCHILLER & FLEXNER, LLP 11 Attorneys for Barclays and The Witness 12 5301 Wisconsin Ave. NW 13 Washington, DC 20015 14 BY: JONATHAN M. SHAW, ESQ. 15 16 QUINN, EMANUEL, URQUHART, OLIVER & HEDGES, LLP 17 Attorneys for the Creditors Committee 18 51 Madison Avenue 19 New York, New York 10010 20 BY: ROBERT K. DAKIS, ESQ. 21 22 23 24 25</p>
Page 4	Page 5
<p>1 2 3 JENNER & BLOCK, LLC 4 Attorneys for the Examiner 5 330 N. Wabash Avenue 6 Chicago, Illinois 60611-7603 7 BY: DAVID C. LAYDEN, ESQ. 8 9 HUGHES, HUBBARD & REED, LLP 10 Attorneys for the SIPA Trustee 11 One Battery Park Plaza 12 New York, New York 10004-1482 13 BY: NEIL J. OXFORD, ESQ. 14 FARA TABATABAI, ESQ. 15 16 Also Present: 17 RAJESH ANKALKOTI, Alvarez & Marsal 18 19 20 21 22 23 24 25</p>	<p>1 2 3 4 5 IT IS HEREBY STIPULATED AND AGREED, by 6 and between the attorneys for the respective 7 parties herein, that filing and sealing be 8 and the same are hereby waived. 9 IT IS FURTHER STIPULATED AND AGREED 10 that all objections, except as to the form 11 of the question, shall be reserved to the 12 time of the trial. 13 14 15 IT IS FURTHER STIPULATED AND AGREED 16 that the within deposition may be sworn to 17 and signed before any officer authorized to 18 administer an oath, with the same force and 19 effect as if signed and sworn to before the 20 Court. 21 22 23 24 25</p>

Page 6	Page 7
<p>1 DENIG - CONFIDENTIAL</p> <p>2 NANCY DENIG,</p> <p>3 called as a witness by the parties,</p> <p>4 having been duly sworn, testified as</p> <p>5 follows:</p> <p>6 EXAMINATION BY</p> <p>7 MR. HINE:</p> <p>8 Q. Good morning, Ms. Denig. How are you?</p> <p>9 A. Good.</p> <p>10 Q. I introduced myself before, but my</p> <p>11 name is Bill Hine. I am from the firm of Jones</p> <p>12 Day, which is special counsel to Lehman Brothers</p> <p>13 Holdings, Inc. in connection with all the</p> <p>14 bankruptcy proceedings that are going on.</p> <p>15 So your deposition today is in</p> <p>16 connection with those proceedings and some</p> <p>17 discovery that we are taking in those proceedings.</p> <p>18 Have you ever been deposed before?</p> <p>19 A. I have not.</p> <p>20 Q. Very simple. I am going to ask you a</p> <p>21 bunch of questions. You are under oath, you are</p> <p>22 going to give me truthful answers.</p> <p>23 On occasion your counsel will raise an</p> <p>24 objection or interpose an objection. He is either</p> <p>25 doing that for any number of reasons, but I just</p>	<p>1 DENIG - CONFIDENTIAL</p> <p>2 wanted to let you know that it doesn't relieve you</p> <p>3 of the obligation to answer the question. You</p> <p>4 still have to answer the question, unless of</p> <p>5 course your counsel instructs you not to answer</p> <p>6 the question, which he may do on occasion as well.</p> <p>7 I think all the other counsel around</p> <p>8 the table will introduce themselves as they get up</p> <p>9 to ask you questions, if they have any, but if you</p> <p>10 have any questions -- unless you have any</p> <p>11 questions, we can get started.</p> <p>12 One point of clarification before we</p> <p>13 get started. I see e-mails addressed to N. Bayne.</p> <p>14 Is that you?</p> <p>15 A. That is my maiden name.</p> <p>16 Q. So if I see --</p> <p>17 A. Unfortunately when you were at Lehman,</p> <p>18 when I got married -- my user profile before I got</p> <p>19 married was N. Bayne, which was my maiden name.</p> <p>20 When I got married, in order for them to change</p> <p>21 the user name, they would have had to delete me</p> <p>22 from the system altogether and I would have to</p> <p>23 reapply for all my applications, which I didn't</p> <p>24 want to do because I was already four years into</p> <p>25 the company, so I left my user name as N. Bayne.</p>
Page 8	Page 9
<p>1 DENIG - CONFIDENTIAL</p> <p>2 Q. If I see an e-mail addressed to</p> <p>3 N. Bayne at Lehman --</p> <p>4 A. That's me.</p> <p>5 Q. Could you tell me how long you worked</p> <p>6 for Lehman?</p> <p>7 A. 15 years.</p> <p>8 Q. So that's starting in --</p> <p>9 A. 1994, January 20.</p> <p>10 Q. OK. And could you kind of briefly</p> <p>11 walk me through the progressions of positions you</p> <p>12 held up until the end?</p> <p>13 A. I started as an analyst in customer</p> <p>14 service, which dealt with like trade discrepancies</p> <p>15 for fixed income products.</p> <p>16 Moved to P&L in the finance division,</p> <p>17 where I supported the repo desk for central</p> <p>18 funding for all types of fixed income assets.</p> <p>19 I then took on various different</p> <p>20 groups throughout the life, sales support, trade</p> <p>21 support, P&L, structured repo, EMG, trade and</p> <p>22 sales support, and probably that was pretty much</p> <p>23 it. So I pretty much stayed on the fixed income</p> <p>24 side pretty much all my career.</p> <p>25 Q. What was the last position you held?</p>	<p>1 DENIG - CONFIDENTIAL</p> <p>2 A. Last position, regional head for fixed</p> <p>3 income repo, middle office, so that was trade</p> <p>4 support, so we supported the traders in the daily</p> <p>5 transactions that they executed.</p> <p>6 We did sales support, which also</p> <p>7 supported any trade confirmations, sales</p> <p>8 confirmations, trade discrepancies with regards to</p> <p>9 the salespeople.</p> <p>10 We did -- we reported the P&L to the</p> <p>11 business lines, and, you know, some various little</p> <p>12 odds and ends, but nothing that needs to be</p> <p>13 clarified.</p> <p>14 Q. Who did you report to in that</p> <p>15 position?</p> <p>16 A. Jim Hraska.</p> <p>17 Q. Any other people that you reported to</p> <p>18 directly?</p> <p>19 A. No.</p> <p>20 Q. How long have you held this position?</p> <p>21 A. Three years of all that. I just kept</p> <p>22 getting more stuff added to me as my career</p> <p>23 progressed. So I started with one group and got</p> <p>24 another one, another, another, another. But</p> <p>25 basically all in the same business line.</p>

Page 10

1 DENIG - CONFIDENTIAL

2 Q. So the description you just gave me of

3 your job --

4 A. With everything was about three years

5 that I had that.

6 Q. For about three years?

7 A. Yeah.

8 Q. And who reported directly to you in

9 the last three-year period?

10 A. Carroll Schirmacher, Anthony

11 D'Agostino, Anthony Rivera, who was -- job

12 elimination at some point during the layoffs at

13 Lehman Brothers, Tom Rogers and Dave Regan. And

14 that was pretty much it.

15 Q. I believe you said, you mentioned the

16 phrase "repo" in your description of your job.

17 Could you just -- did you focus primarily on

18 repurchase transactions?

19 A. Yes. As it related -- well, I

20 wouldn't say repo transactions. The desk was

21 defined that we supported as the repo desk, but

22 they had different facets of the business. They

23 had a business -- they did plain vanilla swaps.

24 They did outright trades. They did other

25 disciplines.

Page 12

1 DENIG - CONFIDENTIAL

2 Q. Who is the head of finance at Barclays

3 that runs the P&L department?

4 A. In our division, it is Kevin Horan.

5 Q. Above him?

6 A. I don't remember his name. Martin

7 Kelly. Martin Kelly.

8 Q. And when you did the P&L work during

9 your time at Lehman, did you -- did that work get

10 provided to Martin Kelly?

11 A. No. Ultimately with Ian Lowitt.

12 Q. I just want to take a quick diversion

13 here. I don't mean to pry into personal matters,

14 but I do have to ask you about your compensation.

15 MR. SHAW: Just so you know, this is

16 all highly confidential, so you can feel

17 free to speak about that.

18 Q. Do you have an employment contract

19 with Barclays?

20 A. No. Well, except for the "can" letter

21 that every employee received on the Monday morning

22 of September 22nd, that we accepted or rejected.

23 Q. And you accepted?

24 A. I accepted.

25 Q. You sent in an e-mail that said

Page 11

1 DENIG - CONFIDENTIAL

2 But for the most part, the name of the

3 department was the financing desk that dealt with

4 repos.

5 Q. OK. And at some point in time, you

6 went to work for Barclays, correct? When was

7 that?

8 MR. SHAW: You need to answer things

9 orally. They can't get a head shake or nod.

10 A. September 22nd.

11 Q. And when -- you are still at Barclays?

12 A. I am.

13 Q. What's your position at Barclays?

14 A. Pretty much the same. Same role

15 without P&L.

16 Q. Without P&L meaning --

17 A. We had a middle office construct in

18 Lehman that included the reporting of P&L. At

19 Barclays they don't have that model, so basically

20 it is just the support.

21 Q. Where is the P&L operation run?

22 A. In finance.

23 MR. SHAW: You need to let him finish

24 his answer, and give me a chance to get an

25 objection in if I need to.

Page 13

1 DENIG - CONFIDENTIAL

2 accepted?

3 A. Yes.

REDACTED

<p>Page 14</p> <p>1 DENIG - CONFIDENTIAL</p> <p>REDACTED</p>	<p>Page 15</p> <p>1 DENIG - CONFIDENTIAL</p> <p>REDACTED</p>
<p>Page 16</p> <p>REDACTED</p> <p>21 Q. Throughout this deposition, we are</p> <p>22 going to talk about different dates, so let's get</p> <p>23 some of them out of -- I believe you mentioned</p> <p>24 September 22, which is the Monday that the sale</p> <p>25 transaction closed, correct -- let me just clarify</p>	<p>Page 17</p> <p>1 DENIG - CONFIDENTIAL</p> <p>2 that.</p> <p>3 You understand that at some point in</p> <p>4 time, Lehman sold its North American broker/dealer</p> <p>5 business to Barclays, correct?</p> <p>6 A. Yes.</p> <p>7 Q. And that closed, the closing of that</p> <p>8 transaction was on September 22, 2008, right?</p> <p>9 A. Yes.</p> <p>10 Q. And so my question has to do with your</p> <p>11 compensation. Did you have any conversations with</p> <p>12 anyone at Barclays about your going to work for</p> <p>13 Barclays prior to September 22, 2008?</p> <p>14 A. No.</p> <p>15 Q. Did you have any conversations with</p> <p>16 anyone at Lehman about the possibility of you</p> <p>17 moving over and becoming a Barclays employee</p> <p>18 before September 22?</p> <p>19 A. No.</p> <p>20 Q. When did you first -- so on</p> <p>21 September 22, did you have any expectation that</p> <p>22 you would become a Barclays employee?</p> <p>23 A. I was hopeful, but no.</p> <p>24 Q. Did you hear any rumors around Lehman</p> <p>25 the week before September 22 about what was going</p>

Page 18

1 DENIG - CONFIDENTIAL
2 to happen to all the Lehman employees?
3 A. No. We -- as far as we were told, we
4 were all to be retained.
5 Q. Who told you that?
6 A. TV, CNN, documents that were posted on
7 Reuters and Bloomberg.
8 Q. Did you hear that from any senior
9 executives at Lehman?
10 A. No. Again, all hopeful. Everybody
11 was hopeful.
12 Q. And so was there any -- when you --
13 when September 22 came around, you were hopeful of
14 getting a job, but you had no guarantee of getting
15 a job until you received an offer from Barclays?
16 A. Yes.
17 Q. What did that offer consist of?
18 A. A "can" letter just saying that you
19 were to retain employment until December 31 of
20 2009 -- 8. Basically it was a three-month
21 contract.
22 Q. Did that letter contain any
23 description of the compensation that was going to
24 be paid to you?
25 A. No, it did not.

Page 20

1 DENIG - CONFIDENTIAL

2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

REDACTED

Q. We are going to leave your
compensation. Can I take a step back and get a
sense of your role in this whole Lehman Barclays
transaction which encompasses several different
aspects. I think it will just make the deposition
go quicker.
Let's go to a date. September 15 of
2008, which is the Monday prior to the closing,
which we understand to be the date -- well, that
is the date when Lehman Brothers Holdings, Inc.
filed for bankruptcy.

Page 19

1 DENIG - CONFIDENTIAL
2 Q. So you clicked on e-mail and accepted
3 the employment?
4 A. Yes.
5 Q. Not knowing how much you were going to
6 be paid?
7 A. Yes.

REDACTED

Page 21

1 DENIG - CONFIDENTIAL
2 Did you have any -- prior to that
3 date, did you have any knowledge that Barclays and
4 Lehman had been in some kind of discussions about
5 a transaction?
6 A. CNN over the weekend, and we were --
7 basically 7 p.m. we were told that Barclays PLC
8 could not do the whole company or they were on the
9 table as one company that was going to be
10 interested in buying Lehman, and then at 7:30 the
11 Sunday night before, we were told that they
12 weren't able to get -- do the deal.
13 Q. And you were told through what means?
14 A. E-mails and phone calls from Jim.
15 Q. From Jim Hraska?
16 A. Yes.
17 Q. Did you -- so let's talk about the
18 period before you're told that. Any involvement
19 at all with those discussions between Barclays and
20 Lehman?
21 A. No.
22 Q. Were you asked to provide any
23 information in support of those discussions?
24 A. No.
25 Q. Ever called into a conference room and

Page 22

1 DENIG - CONFIDENTIAL
2 asked, or asked to provide a spreadsheet or
3 anything?
4 A. Not before the 15th of September.
5 Q. OK. Then on the 15th, Lehman Holdings
6 files for bankruptcy. Did you have any role in
7 preparing the bankruptcy filing?
8 A. No.
9 Q. Did you have any role in providing
10 information to those who were preparing a
11 bankruptcy filing?
12 A. No.
13 Q. Did the bankruptcy filing come as a
14 surprise to you that Monday?
15 A. No.
16 Q. Why not?
17 A. Just from what we heard throughout the
18 weekend. It was all over CNN and, you know,
19 everybody and every one of my friends calling me,
20 giving me updates as to what was going on with
21 Lehman.
22 Q. OK, but internally from your superiors
23 at Lehman --
24 A. No --
25 Q. -- you didn't hear anything?

Page 24

1 DENIG - CONFIDENTIAL
2 the lines of communication between our group, the
3 traders and settlements was open, and that
4 everything was being transacted properly so we
5 wouldn't have any misbookings.
6 Q. You said a lot there so I am going to
7 take it piece by piece.
8 You said there was an effort during
9 that week to keep the broker arm, LBI, going.
10 A. Yes.
11 Q. Now, why did they want to keep LBI
12 going? Do you know?
13 MR. SHAW: Objection, foundation.
14 Q. You can answer.
15 A. Well, at that point, we didn't know
16 any other -- that we felt the broker/dealer was
17 going to stay as a going concern.
18 Q. OK. Had you had any idea that the
19 broker/dealer would file for bankruptcy later that
20 week?
21 A. No, not on Monday.
22 Q. Did you later learn that?
23 A. Yes.
24 Q. When did you learn that?
25 A. Wednesday.

Page 23

1 DENIG - CONFIDENTIAL
2 MR. SHAW: Let him finish.
3 Q. Now, there comes a time on the 15th
4 when Barclays comes back and starts speaking to
5 Lehman again about a transaction. Did you have
6 any role in that negotiations between Barclays and
7 Lehman?
8 A. No.
9 Q. Well, could you describe generally
10 what you did that week, the week of October --
11 from September 15th to the 22nd?
12 A. Well, starting on September 15, it was
13 just a matter of trying to keep the broker/dealer,
14 LBI portion of it running, going. Supporting the
15 traders that were trying to get liquidity within
16 the firm.
17 And Barclays was a big part of that,
18 as far as providing additional funding, where
19 other liquidity providers stopped giving us the
20 cash and the Fed basically -- the Fed programs
21 that were available at the time were being used to
22 do that facilitation. And we were just very close
23 to it.
24 My job was just to make sure that all
25 the positions that we had were settling, that all

Page 25

1 DENIG - CONFIDENTIAL
2 Q. What did you hear about that?
3 A. That we were going to be -- that the
4 Fed was going to be stepping out of the
5 transaction of all the collateral that we had
6 being funded by them. That they wanted Barclays
7 to take over that transaction.
8 Q. How did that relate to the LBI filing
9 for bankruptcy?
10 A. Because -- at that particular time, if
11 we got rid of everything we had, the only funding
12 we were getting was from the Fed, and Barclays was
13 now going to have it, we would have nothing to
14 go -- we would have nothing to be able to continue
15 going as a going concern. We would have no
16 assets.
17 Q. So did you surmise that LBI was going
18 bankrupt or were you told that that was going to
19 take place?
20 A. I don't know if I was told outright.
21 I think there was sort of speculation that that
22 was the way it was going until, say, Thursday,
23 when it was definitive that that was what was
24 going to happen.
25 Q. And what did you hear on Thursday that

Page 26

1 DENIG - CONFIDENTIAL
2 made you think it was definitive?
3 A. I think they said that Barclays was
4 going to file Chapter 11 or Chapter 7 for the
5 broker/dealer.
6 Q. Barclays?
7 A. Yes.
8 Q. Not LBI?
9 A. No. I think Barclays was going to
10 file for -- I think they owned it at that
11 particular time, and they were going to file for
12 bankruptcy on behalf of the broker/dealer.
13 Q. OK. Let me just step back and try to
14 piece some of this together.
15 You mentioned the Fed program.
16 A. Um-hm.
17 Q. Tell me what your role was in
18 connection with the Fed program again.
19 A. Well, there were three specific Fed
20 programs that were available to broker/dealers.
21 And my groups were responsible for booking the
22 transactions and then reconciling them with the
23 Fed on a daily basis.
24 Q. So these are overnight financings,
25 correct?

Page 28

1 DENIG - CONFIDENTIAL
2 Q. Just so I can finish my -- just so I
3 can understand, in your hypothetical, if you
4 wanted the Fed to pay you 100 million, you would
5 have to post 102 million in collateral?
6 A. Yes.
7 Q. So in connection with these Fed
8 programs that you were working on to support LBI,
9 what was the haircut that the Fed insisted on?
10 MR. SHAW: Objection. Foundation.
11 Go ahead.
12 Q. You can answer.
13 A. It depended.
14 Q. On what?
15 A. On the collateral itself.
16 Q. Can you explain that?
17 A. Different types of collateral had more
18 favorable haircuts than the more exotic or toxic
19 type of assets.
20 Q. When you say more favorable, you mean
21 lower percentage?
22 A. Lower grade like Treasuries, agencies,
23 mortgage collateral, was more liquid in the
24 market, and you wouldn't -- they didn't make you
25 pay as much for them.

Page 27

1 DENIG - CONFIDENTIAL
2 A. Yes, except for the TSLF, which is
3 more term. There is a 30-day term or 28-day term
4 program.
5 Q. That's TCLF?
6 A. TSLF.
7 Q. Are you familiar with the term
8 "haircut" in connection with the Fed transaction?
9 A. Am I familiar with the word "haircut"
10 as it relates to --
11 Q. Yes.
12 A. Yes.
13 Q. What does a haircut mean when you're
14 talking about these Fed programs?
15 A. It would be an amount in addition to
16 the par value of the securities that you would
17 have to give them in order to do the transaction.
18 So -- do you need a for instance?
19 Q. Yeah.
20 A. If you have a 100 million trade that's
21 worth 100 million in price, the Fed would require
22 you to pay 2 percent more for that transaction.
23 Q. So meaning you would have to --
24 A. Pay 102 million for the same
25 transaction.

Page 29

1 DENIG - CONFIDENTIAL
2 Q. And then some more exotic
3 instruments --
4 A. Yes.
5 Q. -- you would have to pay a higher
6 haircut?
7 A. Yes.
8 Q. Is that right?
9 A. Yes.
10 Q. Was there an aggregate haircut that
11 you folks calculated as relates to all these Fed
12 programs in connection with your financing of LBI?
13 MR. SHAW: Objection, foundation.
14 A. I don't remember actually.
15 Q. I've seen references to a 20 percent
16 haircut in some of the e-mails. Does that ring a
17 bell or is that --
18 A. With regards to the actual Fed
19 programs?
20 Q. Yeah.
21 A. It could be for the PDCF, which is a
22 primary dealer credit facility. They were all
23 corporate and exotic type of assets, so I would
24 say yes. But the TSLF and our overnight program,
25 I would think that was way too high.

Page 30

1 DENIG - CONFIDENTIAL

2 Q. So they were much smaller for those

3 two programs?

4 A. Yeah.

5 Q. Is -- I apologize if I am outside my

6 area of expertise here. I am trying to understand

7 the business that you guys consider everyday

8 activity.

9 But if -- am I correct to say that the

10 Fed -- in connection with these Fed programs, by

11 Wednesday, you had posted about 50 billion dollars

12 in collateral in exchange for 45 billion in cash

13 for the Fed; is that right?

14 A. I don't know if that was the final

15 figure from the Fed. What I do know is that we

16 got a file from Chase that told us what the

17 individual collateral was that we had to the Fed

18 and what they anticipated market value of it was.

19 Q. And what was that market value?

20 A. The first file that we received was

21 42,2.

22 Q. Now, why is --

23 A. 44,2. 42,2 or 44,2.

24 Q. Well, tell you what. You mentioned

25 this file. I think I have seen that, so let me

Page 32

1 DENIG - CONFIDENTIAL

2 Chase?

3 A. Yes.

4 Q. Why is Chase sending this document?

5 A. They were our custodian.

6 Q. In connection with the Fed financings?

7 A. Yes.

8 Q. And what was the purpose of Chase

9 sending this to you?

10 A. To tell us what each facility that we

11 had on with the Fed, what the value of it was

12 worth.

13 Q. And Chase was placing its own value on

14 those securities?

15 A. I can't be sure of where they came up

16 with the market value.

17 Q. And was it the same as the values you

18 folks placed on those securities?

19 MR. SHAW: Objection, foundation.

20 A. We -- well, the way we booked it is a

21 lot different than actually assigning market

22 values, which we didn't do. The transfer of or

23 the delivery of these securities were booked with

24 no value on them.

25 And, you know, I don't know if you

Page 31

1 DENIG - CONFIDENTIAL

2 try to find a copy and we can talk about that,

3 because that was going to be one of my questions.

4 Ms. Denig, I am handing you a copy of

5 an exhibit that we previously marked as 125.

6 MR. SHAW: Take whatever time you need

7 to look at it.

8 Q. Please take a moment to look at it. I

9 have a question once you're ready.

10 A. I am ready.

11 Q. You have had a chance to look at that?

12 A. Yes.

13 Q. Is this the document to which you were

14 just referring?

15 A. Yes.

16 Q. And can you tell me what this document

17 is? Again, I'm not so much concerned about the

18 covering e-mail but the one-page chart that's

19 attached that's entitled "Booking Amounts."

20 A. Yes. This is not the original that we

21 received from Chase. This is my version of what

22 the denominations were of the trades that my guys

23 booked that day. But the totals are exactly the

24 same that we received from Chase.

25 Q. So this started as a document from

Page 33

1 DENIG - CONFIDENTIAL

2 want to get into that now or just concentrate on

3 this document first, but I mean the way we booked

4 the trade is a lot different than probably your

5 understanding of it.

6 Q. I would like to understand what's the

7 difference. Why the difference?

8 A. So typically when you book a DVP

9 transaction and there would be a par value, a

10 principal value based on a price, and when you

11 make delivery, the assets go and cash is received,

12 and it is a simultaneous transaction.

13 For these that was not the case. We

14 actually booked the trades for par value,

15 delivered them for free to a particular -- a BoNY

16 location of where Barclays' accounts were, and we

17 booked separately the cash that they sent us.

18 Q. Are you talking about the Fed program

19 now or Barclays?

20 A. Well, we stepped into the Barclays

21 role. This, this particular transaction, it was

22 related to how we booked the trade to Barclays.

23 This spreadsheet was how we booked the trade to

24 Barclays. The original amounts is what we had at

25 Chase.

Page 34

1 DENIG - CONFIDENTIAL

2 Q. Let me just understand this chart and

3 then we can talk about -- when you say booking

4 amounts, what does that refer to?

5 A. This is on September 18.

6 Q. OK.

7 A. Which is the day we booked the trade

8 and Fed stepped out of the trade, and now Barclays

9 was our liquidity provider for these securities.

10 These are the amounts that I booked. So these

11 amounts were to Barclays. But the -- this column,

12 the second -- this column here with the par

13 amounts was given to us by Chase.

14 Q. OK, let's just step back for a second.

15 On the 18th, you were involved in the transferring

16 of the securities from the Fed program to a new

17 repo that was executed with Barclays?

18 A. Yes.

19 Q. Correct?

20 A. Yes.

21 Q. So going forward, can we call that the

22 September 18 repo, just so we are on the same

23 page?

24 A. Sure.

25 Q. And Bank of New York was the --

Page 36

1 DENIG - CONFIDENTIAL

2 A. This is the market value that Chase

3 put on it.

4 Q. So that column, which totals 47,

5 approximately 47.5 billion dollars, is the --

6 reflects the market value that Chase ascribed to

7 the securities that were in the Fed program?

8 A. That's correct.

9 Q. Now, let's continue on the chart a

10 little to the right, and again, I'm not trying to

11 be laborious here, I just need to get a clear

12 record.

13 The column which starts with

14 108.49 billion -- million, do you see that?

15 A. Yes. Million. These are actual

16 figures.

17 Q. OK. Now, that totals down to 44.2

18 billion dollars. Do you see that column?

19 A. Yes.

20 Q. What does that column reflect?

21 A. The par value -- I am sorry, the cash

22 value that we booked the trades at.

23 Q. Can you explain that to me?

24 A. So they came and said that the

25 projected value -- again, this is not the original

Page 35

1 DENIG - CONFIDENTIAL

2 A. Custodian for Barclays.

3 Q. And who was your custodian?

4 A. Chase.

5 Q. So on the 18th, you are -- when you

6 talk about booking, you are talking about

7 transferring assets or securities that were

8 previously in the Fed program held by Chase,

9 correct?

10 A. Yes, um-hm.

11 Q. Into what, an account at BoNY for the

12 benefit of Barclays? Is that right?

13 A. Yes.

14 Q. You talked about a bunch of columns.

15 I just want to get it clear on the record.

16 The second column, second large column

17 on this chart, which starts with 7.1 billion

18 dollars, do you see that?

19 A. Yes.

20 Q. That, those numbers are what?

21 A. Those are the par value of the assets

22 that were in the OMO program with the Fed.

23 Q. And what's the column to the left of

24 that which talks about 109,406,353? Do you see

25 that?

Page 37

1 DENIG - CONFIDENTIAL

2 that we received from Chase. This is after I

3 determined how I was going to physically book the

4 trades. This is my breakout of how we physically

5 booked them to Barclays.

6 The total that -- of this forty-four

7 two was the projected value of the collateral that

8 Chase gave it as far as the cash. This is --

9 includes market value and haircuts. This 42.2 was

10 what the cash value, projected cash value was that

11 Barclays was going to pay us.

12 Q. You pointed to different columns.

13 When you're testifying, we have to do it a little

14 formally here. So I think you just pointed to the

15 column that had the 47.5 and said --

16 A. Yes.

17 Q. And said that is Chase's market value

18 for those securities, right?

19 A. Yes, yes.

20 MR. SHAW: Let him finish the

21 questions. We have time, we will get

22 through all of it.

23 Q. The column that totals the 44.2 is the

24 amount of cash that Barclays was going to convey

25 to Lehman in exchange for posting those securities

Page 38

1 DENIG - CONFIDENTIAL
2 as collateral?
3 A. Yes.
4 Q. So the difference in the two is the
5 haircut for the September 18 repo?
6 A. For all intents and purposes, yes.
7 Q. And now the column on the far right
8 has 108-some-odd million dollars. That's the
9 first entry. Do you see that?
10 A. Yes.
11 Q. And what is that?
12 A. That is the cash ticket that I booked.
13 Q. So that's to reflect an actual receipt
14 of cash?
15 A. Yes.
16 Q. So --
17 A. So the same 42.2 was broken down into
18 the column -- all the way over to the right, those
19 are the individual specific trades that I booked.
20 So there is one, two, three, four, five, six,
21 seven, eight, nine, ten trades that I booked cash
22 value-wise that totaled the forty-four two.
23 Q. So you ultimately did book into
24 Lehman's system 44.2 billion dollars?
25 A. Yes.

Page 40

1 DENIG - CONFIDENTIAL
2 prepared during the day to reflect all this?
3 A. Yes.
4 Q. So is there -- there probably exists
5 somewhere another spreadsheet that totals to
6 45 billion?
7 A. Yes.
8 Q. OK. Did the valuations in the
9 left-hand column change at all during the day, the
10 ones that total to 47.5 billion?
11 A. I do not believe it did.
12 Q. OK. I apologize but some of today is
13 going to be walking through spreadsheets that we
14 are just trying to understand. So I want to show
15 you another document, which is marked as
16 Exhibit 60B, which was previously marked as
17 Exhibit 60B, which appears to me, as the
18 uninitiated, a similar type of spreadsheet, so I
19 wanted to see if you could explain to me the
20 difference between the two.
21 First of all, take a minute to look at
22 Exhibit 60B. Have you had a chance to look at
23 that?
24 A. Yes, I have.
25 Q. Can you tell me what this -- again, I

Page 39

1 DENIG - CONFIDENTIAL
2 Q. And that's the cash that Lehman
3 received from Barclays on the 18th?
4 A. The cash was 45 million (sic)
5 eventually, but --
6 Q. Well --
7 A. This was the original, this was the
8 original pass that we got. When it was determined
9 that it was going to be 45 billion, those numbers
10 did get changed, so this is not the final
11 document.
12 Q. OK. This is sometime --
13 A. This was about 1 o'clock on Thursday
14 afternoon that this was put together.
15 Q. On Thursday afternoon?
16 A. Right, for September 18th.
17 Q. Then ultimately 45 billion was
18 transferred to Lehman?
19 A. Yes.
20 Q. From Barclays?
21 A. Yes.
22 Q. Why the difference?
23 A. No idea.
24 Q. No idea, OK. So did you -- so this
25 is -- is this one of several spreadsheets you

Page 41

1 DENIG - CONFIDENTIAL
2 am not so much concerned about the covering e-mail
3 but the chart that consists of page 2 of this
4 document, could you tell me what this is?
5 A. This is the actual trades that Chase
6 had on its books and records of the program
7 facilities that we had out to the Fed the end of
8 day 17th, September 17th. So Wednesday, end of
9 day Wednesday, this is what they had in the
10 program.
11 Q. So this is a chart prepared by Chase?
12 A. Yes.
13 Q. As your -- as the custodian for the
14 Fed programs?
15 A. Yes.
16 Q. And now could we just walk through the
17 columns here.
18 Par amount is just a par value that
19 Chase ascribes to all the securities posted to
20 those programs?
21 A. Yes.
22 Q. Current market value is the -- the
23 column that's marked "current market," what is
24 that?
25 A. That would be the market value that it

Page 42

Page 43

1 DENIG - CONFIDENTIAL
2 assigned to those securities.
3 Q. "It" being Chase?
4 A. Yes.
5 Q. And now pay-down amount, what is that?
6 A. I'm not sure. But the anticipated
7 prefunded dollar amount, that was what technically
8 they were saying that the -- to be conservative,
9 that's what Barclays was going to pay us for those
10 assets.
11 Q. OK. And do you have any idea why that
12 number is different than the pay-down amount?
13 A. No.
14 Q. Could pay-down amount be the amount
15 that the Fed was expecting to get paid back when
16 it released the securities?
17 MR. SHAW: Objection, foundation.
18 A. I'm not sure.
19 Q. OK. Do you know if the haircut for
20 the Barclays -- for the September 18 repo was any
21 different than the haircut used in the Fed
22 programs?
23 A. No.
24 Q. No, you don't know, or no, it was not
25 different?

1 DENIG - CONFIDENTIAL
2 A. No, it was not different.
3 Q. It was not different?
4 A. No.
5 Q. So my -- so to your understanding, the
6 same haircut was applied -- let's step back.
7 I thought you said there were
8 different haircuts applied to different types of
9 securities in the Fed program, correct?
10 A. Yes.
11 Q. Were the same haircuts applied to the
12 same types of securities for the September 18
13 repo?
14 MR. SHAW: Objection, foundation.
15 A. Yes, yes.
16 Q. Yes, to your knowledge?
17 A. To my knowledge.
18 Q. Do you have any -- were you involved
19 in any negotiations and discussions about the
20 amounts of haircuts?
21 A. I'm sure there was e-mails, but no, I
22 wasn't the one determining any -- if anything, I
23 was cc'd on mails to the traders.
24 Q. OK.
25 (Exhibit 232, document Bates stamped

Page 44

Page 45

1 DENIG - CONFIDENTIAL
2 10303555, two pages, marked for
3 identification, as of this date.)
4 Q. Ms. Denig, I am handing you a copy of
5 a document we have marked as Exhibit 232, which is
6 an e-mail stream dated Monday, September 15, in
7 which you are a recipient. If you could take a
8 moment to look at that.
9 A. OK.
10 Q. Do you recall receiving this e-mail at
11 all?
12 A. Yes.
13 Q. Can you just generally describe for me
14 what the debate was that's going on in connection
15 with this e-mail?
16 A. I'm not sure it is a debate. I think
17 it is more informational purposes, just to tell
18 them relatively based on asset class what type of
19 haircuts are provided.
20 As I explained before, I said that
21 better collateral, like agencies and U.S.
22 Treasuries, mortgages, have a lower haircut.
23 Private labels, asset backs and equity corporates
24 have higher haircuts.
25 So he basically is explaining that in

1 DENIG - CONFIDENTIAL
2 here. So it looks like haircuts 20 percent for
3 nongovernment agency, and equities and corporates
4 are 15 percent wider, which means that they are
5 going to be higher than general liquid assets.
6 And at the last one, where it says for
7 all AAA and AA, which is around corporates and
8 equities, 10 percent higher than this 20 percent,
9 and for all others flat to lower than 15 percent,
10 which means that for Treasuries and agencies you
11 are either going to have no haircut or up to 10
12 percent based on the type of collateral it is.
13 And basically everybody on here are
14 senior people that understand that that's the
15 nature of how the collateral works and haircuts
16 work.
17 Q. At the bottom it says -- one e-mail
18 from Mr. Tonucci, it says, "Do you have haircuts
19 from Fed versus our normal haircuts?" Are the
20 haircuts you just described --
21 A. Yes.
22 Q. -- abnormal?
23 A. No. The ones that I -- these
24 10 percent, 20 percent, no, they are very normal.
25 Q. They are very normal?

Page 46

1 DENIG - CONFIDENTIAL
2 A. Yes.
3 Q. Did the -- do you have any notion of
4 the types of securities that were posted to the
5 Fed, were they predominantly the safer securities
6 that you have discussed or the ones with the lower
7 haircuts?
8 A. I would say it was a 50/50 mix.
9 Actually maybe more, more liquid assets.
10 Q. More liquid assets which would mean a
11 higher haircut?
12 A. No, lower haircut. These would be
13 assets that are no problem being funded on the
14 street. Even based on this, you could see that.
15 Q. Let me ask -- this is my outsider's
16 question so I apologize if this sounds naive, but
17 I understand to the Fed program, Lehman posted
18 about 50 billion dollars in collateral and
19 received 45 billion dollars in cash. Does that
20 sound about right to you?
21 A. Yes.
22 Q. Doesn't that 5 billion dollar haircut
23 reflect about a 10 percent haircut, 5 over 50?
24 A. Yes.
25 Q. So that seems lower than the numbers

Page 48

1 DENIG - CONFIDENTIAL
2 collateral that was posted to the Fed and
3 collateral that ultimately made it into the
4 September 18 repo?
5 A. The individual CUSIPs? Yes.
6 Q. What was -- can you describe for me
7 the difference?
8 A. Well, for the Fed programs, they
9 basically take whatever is left in the box at the
10 custodian, at Chase. After all of the regular
11 delivery versus payment activity is finished for
12 the day, which is done at probably by 3:30 in the
13 middle of a regular business day, OK, from that
14 point going forward, we see what we have left and
15 they book trades to reflect the values of the
16 collateral that were going into the Fed.
17 Q. OK, I think you're losing me here.
18 A. OK. So say, for instance, you have
19 50 billion left in collateral. We would write
20 tickets that would go down to Chase, and Chase
21 would fill these -- they are called shells, with
22 certain types of assets based on the shell we
23 booked.
24 At the end of day, that's what we
25 would do. After everything was done, that is

Page 47

1 DENIG - CONFIDENTIAL
2 you're talking about in this e-mail chain?
3 A. Well, if it was an average, then it
4 would make sense.
5 Q. How is that?
6 A. Because the higher -- the worse the
7 collateral is, like the corporate bonds that are,
8 you know, BBB rated and lower, equities and, you
9 know, some of the mortgage type of assets have a
10 much higher haircut than general collateral, which
11 would be liquid markets, U.S. Treasuries and
12 agencies, which would have 2 percent, versus the
13 equities and stuff would have, say, anywhere from
14 15 to 35 percent haircut.
15 So I guess as an average, that
16 20 percent would sort of make sense.
17 Q. Well, it comes to 10 percent.
18 A. I am sorry, 10 percent would make
19 sense.
20 Q. The 10 percent suggests that the
21 majority of the collateral posted to the Fed was
22 the more -- the safer assets, right?
23 MR. SHAW: Objection to form.
24 A. Um-hm, yes.
25 Q. Was there any difference between the

Page 49

1 DENIG - CONFIDENTIAL
2 business as usual.
3 Q. This gets done on Monday night,
4 Tuesday night and then Wednesday night?
5 A. Yes.
6 Q. All right. Finish your -- I didn't
7 mean to interrupt your story. Keep going.
8 A. At the end of Wednesday we got a list
9 of collateral, individual pieces that went into
10 the Fed programs, that was what we thought was
11 going to be what we sent to Barclays on Thursday.
12 Q. Right.
13 A. On Thursday when we started booking to
14 transactions, it became clear very quickly that we
15 didn't have the assets on our books that we were
16 booking, and there is systems within the front-end
17 trader systems that would reflect where the
18 position sat. So as I booked them, their
19 positions get decremented or increased depending
20 on the direction.
21 Here I was booking repo transactions,
22 which was sells, and it was showing they are short
23 instead of flat.
24 Q. You are talking about Thursday you are
25 doing this?

Page 50

1 DENIG - CONFIDENTIAL
2 A. Yes, yup.
3 Q. So you're -- just so I can understand
4 this, you're trying to book a transaction that
5 would post this collateral to the Bank of New York
6 account on behalf of Barclays, correct?
7 A. Yes.
8 Q. And you're finding out that some of
9 the collateral is not available for you to do
10 that, right?
11 A. That's correct.
12 Q. What types of collateral is not
13 available for you to do that?
14 A. Fed deliverable collateral.
15 Q. And what does that mean?
16 A. Treasuries, agencies, mortgages.
17 Q. So those were -- a group of those were
18 not available for you to post to Barclays, right?
19 A. That's correct.
20 Q. And how much were you unable to post
21 to Barclays?
22 A. 8 billion.
23 Q. 8 billion. OK. And so what did you
24 do instead?
25 A. We reached out to the settlements

Page 52

1 DENIG - CONFIDENTIAL
2 CUSIPs, certain equities, just more toxic, no
3 value, you know, not able to determine a market
4 value, they didn't want it.
5 Q. So they excluded the more toxic
6 securities from their September 18 repo?
7 A. Yes, yes, yes.
8 Q. Were some of those assets previously
9 posted to the Fed for their financing?
10 A. I wouldn't be able to tell that.
11 Q. How do you know what Barclays
12 excluded?
13 A. We received a list.
14 Q. OK. From who?
15 A. Jim Hraska.
16 Q. This is not going in the order I
17 planned so I have to get a new exhibit.
18 So other than this 8 billion dollars
19 in securities, were you able to transfer all the
20 securities from the Fed financings to the Barclays
21 September 18 repo?
22 A. No. Because there were other issues
23 throughout the day that were pending deliveries
24 of -- you know, there was a regular day of
25 transactions going on, and there were pending

Page 51

1 DENIG - CONFIDENTIAL
2 group and we asked them what they had long in the
3 box, versus trade -- pending deliveries or actual
4 trades that were booked, and substituted the
5 collateral that we originally booked.
6 Q. Now, you say the settlements group.
7 Is that at Chase?
8 A. No. At Lehman.
9 Q. Who was that?
10 A. Lenny Legotte.
11 Q. Who does he work for?
12 A. He worked for Jack Fondacaro, who
13 ultimately worked for Neal Ullman.
14 Q. Just trying to get people's positions.
15 A. Sure.
16 Q. What type of collateral was ultimately
17 substituted for this 8 billion that you were
18 unable to transfer?
19 A. Same type, Treasuries, agencies.
20 Q. Were there certain types of collateral
21 that Barclays would not accept into their
22 September 18 repo?
23 A. Yes.
24 Q. Like what?
25 A. Lehman paper, real estate type of

Page 53

1 DENIG - CONFIDENTIAL
2 deliveries that were queued up at Chase. So when
3 this transaction started, or when they gave us the
4 first 5 billion, they were -- the cash came in,
5 Chase would release the securities to the free box
6 to start making the deliveries over to BoNY, but
7 because there were other pending deliveries out
8 there, some -- those securities were made on those
9 deliveries instead of to BoNY, again, creating the
10 same problem, that we needed to substitute the
11 collateral that was originally expected to go.
12 Q. So am I correct, just so I can
13 understand this, the trading desk was in the
14 process of doing their normal trades, so they took
15 priority over some of the assets that were
16 released by Chase?
17 A. I wouldn't think it was priority.
18 Q. This is just a queue system?
19 A. It's just a queued system.
20 Q. What did you do to make up that
21 shortfall?
22 A. Same type of scenario. Went to the
23 clearance folks, they went to the DTC terminals to
24 try to determine what collateral was available.
25 Q. Were you able to make up the entire

Page 54

1 DENIG - CONFIDENTIAL
2 shortfall?
3 A. We weren't.
4 Q. And so what did you do then?
5 A. Because we basically ran out of time,
6 the Fed and the DTC depositories ended up shutting
7 down at a particular time and we didn't get
8 everything that we wanted to over, because it
9 wasn't enough time to do all the research.
10 Q. And you're talking about Thursday
11 evening?
12 A. Thursday evening around 11 o'clock.
13 Q. So what was the shortfall by the time
14 of -- by the time you ended on Thursday night?
15 A. I am not 100 percent sure of what the
16 final figure was, but I want to say it was
17 42 billion is what they received.
18 Q. OK. So 42 is not the shortfall, 42 is
19 what ultimately did make it?
20 A. Yeah.
21 Q. Was there a 7 or 8 billion dollar
22 shortfall, do you recall?
23 A. Yes.
24 Q. Is that the genesis of what I have
25 seen referred to as box loan?

Page 56

1 DENIG - CONFIDENTIAL
2 Q. I understand. OK.
3 So now you have gotten us through
4 Thursday night. What did you do Friday morning or
5 Friday during the day?
6 A. Well, we -- there was a lot of --
7 Q. I just mean Friday, the 19th of
8 September.
9 A. 19th. So first thing in the morning,
10 what we thought was pulled, that they were short
11 collateral that we didn't finish, to try to get as
12 much collateral that we knew was available in the
13 DTC, because at this point the Fed collateral was
14 all exhausted. We didn't have Treasuries,
15 agencies. They went. They were delivered and
16 they were reconciled with Barclays, that they
17 received them.
18 The assets that we ran out of time to
19 send were the DTC, what you referenced as 074
20 collateral, 636 collateral, which are the two DTC
21 boxes that Lehman Brothers, Inc. owned.
22 The traders were basically using their
23 front-end capture system to determine what the
24 positions were that they had available and what
25 they knew as unencumbered, and they delivered

Page 55

1 DENIG - CONFIDENTIAL
2 A. Yes.
3 Q. And can you tell me what that is?
4 A. Well, because we didn't -- we couldn't
5 make the rest of the collateral, because of the
6 timing, they didn't receive the value of
7 7 million -- 7 billion worth of collateral. So
8 Chase lent Lehman 7 billion dollars to give back
9 to -- to give to Barclays to make up that.
10 Typically you wouldn't collateralize
11 cash with cash, but at that late hour, that was
12 really the only way to facilitate that so that
13 Barclays was made whole.
14 Q. And what secured that loan?
15 A. Chase. The assets that we still had
16 in the box, that Lehman still had in the box.
17 Q. And the box meaning what?
18 A. Our free collateral box, meaning any
19 assets that didn't get delivered over to BoNY and
20 was still in the possession of Lehman Brothers,
21 Inc.
22 Q. And is that the 074 box?
23 A. No, it was a Chase box.
24 Q. OK. 074 box is separate?
25 A. That's a DTC box.

Page 57

1 DENIG - CONFIDENTIAL
2 those via pledge mechanism to DTC, a DTC box for
3 BoNY, which was owned technically by Barclays.
4 Q. And how much collateral was
5 transferred to the BoNY box in connection with
6 that effort?
7 A. A billion dollars, a billion and
8 change.
9 Q. And now what was the purpose of
10 transferring that to that BoNY box?
11 MR. SHAW: Objection, foundation.
12 A. We were under the impression we were
13 still short market value.
14 Q. So that was short market value in
15 connection with the September 18 repo?
16 A. Yes.
17 Q. So was that billion and change to
18 substitute in for the cash that had been placed in
19 the repo through the box loan?
20 MR. SHAW: Objection, foundation.
21 A. It wasn't my -- it wasn't my
22 understanding, no.
23 Q. What did you understand it to be for?
24 A. It was just that BoNY said that they
25 didn't have enough market value, you need to give

Page 58

1 DENIG - CONFIDENTIAL
2 us more collateral to make up for the 45 billion.
3 Q. That's the 45 billion that we had
4 talked about previously on these charts?
5 A. Yes.
6 Q. So -- well, so is it your
7 understanding that the -- OK. So that was your
8 work on Friday, to transfer a billion one into the
9 BoNY box in support of the September 18 repo?
10 A. Yes.
11 MR. SHAW: Objection to form.
12 Q. And what ended up happening to the
13 September 18 repo?
14 MR. SHAW: Objection. Vague.
15 A. Yeah, I -- what do you mean by that?
16 Q. Well, was it terminated, defaulted, or
17 do you recall what ultimately happened to all the
18 collateral that was posted toward the September 18
19 repo?
20 MR. SHAW: Objection, foundation.
21 A. On the 19th, no. But the 22nd, yes.
22 Q. What happened on the 22nd?
23 A. They said that the repo went into
24 default.
25 Q. Who is "they"?

Page 60

1 DENIG - CONFIDENTIAL
2 A. Yes.
3 Q. And were there any other changes made
4 to it?
5 MR. SHAW: Objection, foundation.
6 A. Yes, because the original value of the
7 cash was forty-four two. We had to adjust it to
8 45 billion.
9 Q. And why did -- where did that 45 come
10 from?
11 A. That's what Barclays ended up
12 physically paying us for the assets. Where that
13 figure came up with -- I was just told to change
14 the total cash values to be -- to equal 45 billion
15 instead of the forty-four two which was originally
16 given to me.
17 Q. OK. Forty-four two is the number we
18 talked about earlier?
19 A. Yes.
20 MR. SHAW: Whenever you reach a good
21 stopping point, we have been going about an
22 hour.
23 MR. HINE: Sure, let's take a break.
24 (Recess)
25 BY MR. HINE:

Page 59

1 DENIG - CONFIDENTIAL
2 A. Barclays to my senior management to
3 me.
4 Q. What did that mean as far as where the
5 collateral went?
6 A. The collateral was there at Barclays
7 already. We had trade bookings in Lehman Brothers
8 of a repo transaction that went from September 18
9 to September 25. The fact that they deemed the
10 repo to be in default, we had to term the trade
11 earlier than -- and put an end date of
12 September 22 on it.
13 Q. OK, I was -- I'm seeing -- we are
14 going to bring out a chart which I think is what
15 you're talking about. Are you talking about on
16 the MTS system how you booked the trades?
17 A. Yes, yes.
18 Q. And so how -- the original, back to
19 Thursday, how is that booked? What was the end
20 date for the repo on Thursday?
21 A. September 25.
22 Q. And then when did you change it to the
23 22nd?
24 A. Monday.
25 Q. On the 22nd itself?

Page 61

1 DENIG - CONFIDENTIAL
2 Q. Ms. Denig, I just want to follow up on
3 a couple things we talked about. I guess I am
4 trying to understand the 1 point -- one and change
5 billion dollars that you said was transferred on
6 Friday. What was the total amount that was
7 supposed to have been transferred to the September
8 18 repo in terms of collateral?
9 A. The 49 and change billion market
10 value.
11 Q. And so how much did you transfer as of
12 Thursday night?
13 A. I don't actually know the final
14 figure. So basically it was communicated to me
15 Monday morning that we still needed -- there was a
16 shortfall and we needed to get more to them.
17 Q. So you understood from that
18 communication that the amount that had been
19 transferred Thursday night plus the box loan was
20 not enough to cover what was supposed to have been
21 transferred to the repo?
22 A. Yes.
23 Q. And who determined that?
24 A. I don't know who determined it. I
25 just know I was told by my boss that we were

Page 62

1 DENIG - CONFIDENTIAL
2 short.
3 Q. And who placed a value on these
4 securities?
5 MR. SHAW: Objection, foundation.
6 A. I don't know.
7 Q. Well, let's go back. The 42 and
8 change, whatever was transferred Thursday night,
9 is that figure Lehman's valuation of those -- of
10 that collateral?
11 MR. SHAW: Objection, foundation.
12 A. I don't believe -- I don't believe so.
13 Q. Whose do you think it was?
14 A. I think it was between Chase and BoNY.
15 Q. OK. Do you recall any differences
16 between the BoNY valuation -- I have seen e-mails
17 referencing the BoNY valuations or Bank of New
18 York valuations. Do you recall any differences --
19 differences between the Bank of New York
20 valuations and the Lehman, the values Lehman had
21 placed on these securities?
22 A. I don't, I don't recall.
23 Q. Do you recall any discussions or
24 documents suggesting that Bank of New York placed
25 a value of about 45 billion on securities that

Page 64

1 DENIG - CONFIDENTIAL
2 at some point. Do you recall that?
3 A. Yes.
4 Q. Is that different than the 1 billion
5 and change that you mentioned earlier?
6 A. No.
7 MR. SHAW: Objection to form.
8 A. No.
9 Q. Let me rephrase here.
10 Were you ever told Friday through the
11 weekend, you were supposed to be looking for
12 unencumbered assets?
13 A. Yes.
14 Q. What did you understand that to be
15 for?
16 A. A shortfall from the repo transaction.
17 Q. OK. And so what did you do in
18 connection with searching for unencumbered assets?
19 A. We received files from our GFS
20 technology, which is a system that did an
21 aggregation of all the collateral we had broken
22 down to individual trading accounts, and the
23 definitions of those trading accounts were to --
24 able to let us determine whether or not it was
25 firm inventory or customer inventory.

Page 63

1 DENIG - CONFIDENTIAL
2 Lehman valued in the 42 billion dollar range?
3 A. I don't recall, sorry.
4 Q. Would you know why the two entities
5 would come up with different valuations?
6 A. No.
7 Q. Do you have a -- could you speculate?
8 What do you think?
9 MR. SHAW: Objection, calls for
10 speculation.
11 Don't speculate.
12 Q. You can speculate.
13 A. Yeah, I don't know. I don't know what
14 the models they use in each bank to come up, or
15 determine what their market values are.
16 Q. You mentioned the 1 billion and change
17 that was transferred Friday.
18 A. Um-hm. Yes.
19 Q. I've seen references in some of the
20 e-mails to an effort to locate unencumbered assets
21 on -- starting I guess Friday into Saturday. Is
22 that -- were you involved in that at all?
23 A. Yes, I was.
24 Q. Is that -- I've seen e-mails
25 suggesting there was a goal of 1.9 billion dollars

Page 65

1 DENIG - CONFIDENTIAL
2 So based on the information that we
3 received from our -- the books and records that
4 Lehman had at the time, we were potentially able
5 to determine what was not customer collateral and
6 that would be free and clear to deliver to
7 Barclays.
8 Q. Free and clear is unencumbered?
9 A. Yes.
10 Q. Is that what I see referred to as the
11 O74 and the 636 boxes?
12 A. Yes.
13 Q. So were you ever told at any point
14 that there was a goal of getting 1.9 billion in
15 unencumbered collateral?
16 A. Yes.
17 Q. Who told you that?
18 A. Jim.
19 Q. Did that goal change over time?
20 MR. SHAW: Objection, foundation.
21 Q. Over the weekend?
22 A. Not over that weekend, no.
23 Q. So once you -- what did you understand
24 the 1.9 billion goal came from? Or where the
25 1.9 billion dollar goal came from?

Page 66

1 DENIG - CONFIDENTIAL

2 A. We were under the impression it was a

3 shortfall of the market value of the repo.

4 Q. So that -- so the September 18 repo?

5 A. Yes.

6 Q. And did you, you folks in fact find

7 1.9 billion dollars in unencumbered assets?

8 A. We did.

9 Q. And what happened with those assets?

10 MR. SHAW: Objection, foundation.

11 A. They were to be delivered to Barclays

12 after we determined whether or not they really

13 were unencumbered.

14 Q. And were they delivered to Barclays?

15 MR. SHAW: Objection, foundation.

16 A. I believe they were.

17 Q. And how much of those unencumbered --

18 what was the value of the unencumbered assets that

19 were delivered to Barclays?

20 A. That I do not know.

21 Q. Do you think that's different than the

22 one billion and change you mentioned earlier that

23 was transferred Friday?

24 MR. SHAW: Objection, form.

25 A. I wouldn't know that.

Page 68

1 DENIG - CONFIDENTIAL

2 assets that were transferred on the 29th and 30th?

3 A. I remember one box was 235 millionish,

4 the other box wasn't as much, just under 200.

5 Q. And those boxes you are talking about

6 are 074 box and 636 box?

7 A. Yes.

8 Q. You say there were further securities

9 transferred in December?

10 A. I heard that. So I wasn't involved at

11 all in that determination, but I knew that there

12 was another delivery at some point.

13 Q. Am I correct to say your involvement

14 in that search for unencumbered assets ended at or

15 around the 29th and 30th of September?

16 A. I would say yes.

17 Q. And then someone else did it

18 thereafter?

19 A. Yes.

20 Q. Did you ever hear of anything called

21 Schedule B?

22 A. Yes.

23 Q. What is it?

24 A. I don't know actually. I knew there

25 was another schedule. I know that Jim had

Page 67

1 DENIG - CONFIDENTIAL

2 Q. You wouldn't know that?

3 A. No.

4 Q. Were these unencumbered assets that we

5 just talked about transferred to Barclays over the

6 weekend?

7 A. No.

8 Q. When were they transferred?

9 A. There were some that were transferred

10 on the 29th of September. There were some that

11 were transferred on the 30th of September. And

12 then sometime in December, there was more assets.

13 But literally my role ended after probably the

14 next -- after the end of the next week, I wasn't

15 involved anymore.

16 Q. Let me get some dates here. So the

17 closing is on Monday, the 22nd?

18 A. Um-hm.

19 Q. So there is an effort even after the

20 closing to find unencumbered assets?

21 A. Yes, yes.

22 Q. And those assets were transferred on

23 the 29th and 30th of September to Barclays?

24 A. Yes, they were.

25 Q. And do you recall the amount of those

Page 69

1 DENIG - CONFIDENTIAL

2 forwarded me the schedule a few times or list of

3 assets to cut up in different ways so that he

4 could determine things, but as far as determining

5 anything, it was just me playing around with the

6 spreadsheet and sending it back to him.

7 Q. Let me ask you this. Did you ever see

8 the asset purchase agreement that -- relating to

9 the transaction between Lehman and Barclays?

10 A. The physical agreement?

11 Q. Yeah.

12 A. No.

13 Q. Did you have any understanding during

14 the week of September 15 what its terms were?

15 A. No.

16 Q. Did you have any understanding during

17 the week of September 15 what the deal was in

18 general between Barclays and Lehman?

19 A. No.

20 Q. What did you think was going on with

21 all this activity between Barclays and Lehman

22 during that week?

23 A. That we were to -- that they were

24 purchasing our assets.

25 Q. But you weren't -- you had no

<p style="text-align: right;">Page 70</p> <p>1 DENIG - CONFIDENTIAL</p> <p>2 understanding of what assets; is that right?</p> <p>3 A. Just the list that -- the</p> <p>4 understanding that we had was the Fed was stepping</p> <p>5 out of the transaction, Barclays was going to take</p> <p>6 it in. The fact that we had no other liquidity</p> <p>7 providers besides the Fed at that particular time</p> <p>8 and Barclays, that was all -- basically once we</p> <p>9 transferred the assets, we would have nothing left</p> <p>10 of the company.</p> <p>11 Q. So you understood the September 18</p> <p>12 repo was -- part of the reason you had entered</p> <p>13 into that would be to transfer assets to Barclays?</p> <p>14 MR. SHAW: Objection to form.</p> <p>15 A. Yes.</p> <p>16 Q. And did you ever hear any discussions</p> <p>17 about defaulting on the repo, on that repo?</p> <p>18 A. Not that week.</p> <p>19 Q. What did you hear the following week?</p> <p>20 A. That we went bankrupt, they filed for</p> <p>21 bankruptcy at -- on Friday at 4 o'clock and that</p> <p>22 the repo was now in default.</p> <p>23 Q. Did you ever hear any discussions or</p> <p>24 mention of a possibility of terminating the repo</p> <p>25 on, say, Friday the 19th?</p>	<p style="text-align: right;">Page 71</p> <p>1 DENIG - CONFIDENTIAL</p> <p>2 A. No.</p> <p>3 Q. Did you ever see a notice of</p> <p>4 termination issued for that repo?</p> <p>5 A. No.</p> <p>6 Q. Did you ever hear anything about a</p> <p>7 notice of termination being issued for that repo?</p> <p>8 A. No.</p> <p>9 Q. Did you ever hear any discussions</p> <p>10 about changing the September 18 repo into a sale</p> <p>11 of assets?</p> <p>12 A. It wouldn't be a sale. We did reflect</p> <p>13 in Lehman's books the fact that they are no longer</p> <p>14 on our books because the trade became a default,</p> <p>15 like they kept the assets at that particular time,</p> <p>16 and that's by nature how a default is transacted.</p> <p>17 Q. What do you mean?</p> <p>18 A. Because we delivered securities to</p> <p>19 them, they delivered us cash, they now have the</p> <p>20 assets. When the company goes bankrupt, they</p> <p>21 can't return the assets because we are no longer a</p> <p>22 company.</p> <p>23 So they go out to the open market to</p> <p>24 raise the cash that they lost or what they paid</p> <p>25 for the assets.</p>
<p style="text-align: right;">Page 72</p> <p>1 DENIG - CONFIDENTIAL</p> <p>2 Q. Do they get to keep all the assets or</p> <p>3 do they have to return the haircut?</p> <p>4 A. No. They get to keep all the assets.</p> <p>5 Q. Did you ever hear any discussion</p> <p>6 during the week of September 15 about a discount</p> <p>7 being granted to Barclays as to the assets they</p> <p>8 were going to buy?</p> <p>9 A. No.</p> <p>10 Q. Did you ever hear any discussion or</p> <p>11 mention of the notion of using the repo as a means</p> <p>12 of giving Barclays a discount on those assets?</p> <p>13 A. No.</p> <p>14 Q. Did you ever hear any discussions or</p> <p>15 mention of the notion of Barclays keeping the</p> <p>16 haircut portion of the September 18 repo?</p> <p>17 A. No.</p> <p>18 Q. How about since you have been at</p> <p>19 Barclays, have you ever heard any discussions</p> <p>20 about any of those things?</p> <p>21 A. No.</p> <p>22 Q. Since you have been at Barclays,</p> <p>23 anyone mention the notion of a discount associated</p> <p>24 with the Lehman/Barclays transaction?</p> <p>25 A. No.</p>	<p style="text-align: right;">Page 73</p> <p>1 DENIG - CONFIDENTIAL</p> <p>2 Q. Since you have been at Barclays, has</p> <p>3 anyone said, hey, we got a good deal on those</p> <p>4 assets, we got them at a discount?</p> <p>5 A. No.</p> <p>6 Q. Or words to that effect?</p> <p>7 A. No.</p> <p>8 Q. Can I just ask you a question about</p> <p>9 the M -- I think it's called MTS system. Can you</p> <p>10 tell me what that is generally?</p> <p>11 A. It is our official books and records.</p> <p>12 It's our settlement system. It is how we had</p> <p>13 connectivity to all our custodians and -- what are</p> <p>14 they called -- depositories.</p> <p>15 Q. So you use this system all the time?</p> <p>16 A. Yes.</p> <p>17 MR. SHAW: Can we clarify the</p> <p>18 difference between use at Lehman, use at</p> <p>19 Barclays.</p> <p>20 Q. Yeah, let's do that. When you were</p> <p>21 working for Lehman, you regularly used this MTS</p> <p>22 system?</p> <p>23 A. Yes.</p> <p>24 Q. How is that different from GFS?</p> <p>25 A. GFS was an aggregator of information.</p>

Page 74

1 DENIG - CONFIDENTIAL

2 MTS was how deliveries were physically transmitted

3 to our custodians.

4 Q. Did you have any role in valuing

5 securities in your position?

6 A. No.

7 Q. Again I am talking about in your days

8 at Lehman.

9 A. Yes.

10 Q. Who placed the values on these, all

11 the securities we have been talking about that

12 were used to post as collateral?

13 A. I have no idea. I am assuming very

14 higher-up people. The fact that we -- we booked

15 the trades at no value and we received in cash, as

16 a bifurcated transaction.

17 Q. Ms. Denig, I am going to show you a

18 document which I think relates to what you just

19 told me, but I'm not sure. It has been previously

20 marked as Exhibit 134.

21 And I'm not sure you have seen it in

22 this form, in written form, but I believe this is

23 a printout from this MTS system we are talking

24 about, and so my first question is, does this look

25 like what I just -- does this look like the

Page 76

1 DENIG - CONFIDENTIAL

2 A. Yes.

3 Q. Below that is a series of entries with

4 zero in that column. Do you see that?

5 A. Yes.

6 Q. Is that the booking of that zero cost

7 you were talking about?

8 A. Yes.

9 Q. Can you tell me again why you do it

10 this way?

11 A. We don't typically do it this way.

12 Because they were the specific assets that went to

13 the Fed program, and that's basically what we were

14 to transfer to Barclays as part of this repo, to

15 ensure that's the assets we were sending, we did

16 them as a one-for-one security delivery instead of

17 letting Chase's triparty allocation system do it

18 for us.

19 Q. Is that what they call free repos?

20 A. These are booked as free repos, but

21 the transaction was traditionally papered as a

22 triparty transaction.

23 Q. So am I correct to understand what you

24 just said, rather than having Chase allocate the

25 approximately 45 billion dollars to individual

Page 75

1 DENIG - CONFIDENTIAL

2 information contained on the MTS system?

3 MR. SHAW: Take whatever time you need

4 to make sure that you are comfortable

5 answering the question on the basis of that.

6 Q. I'm not going to ask you -- you can

7 review the document as much as you want. I am not

8 going to ask you detailed information about all

9 the entries other than probably the first page. I

10 just want to get an understanding of what this is.

11 A. Can you repeat your question.

12 Q. Is this the type of information that's

13 contained in the MTS system?

14 A. Yes, it is.

15 Q. Does this look like a printout of the

16 MTS system that you would use in your position at

17 Lehman?

18 A. Our historical database, yes.

19 Q. That's a portion of the MTS system?

20 A. Yes.

21 Q. If you look on the first page, you

22 will see a series of entries that -- I am looking

23 under the net amount column. You will see a

24 series of entries that total down to approximately

25 44.99 billion dollars. Do you see that?

Page 77

1 DENIG - CONFIDENTIAL

2 repos which amounted to -- or individual

3 securities which amounted in the thousands, I

4 imagine, you just booked it this way for

5 simplicity purposes?

6 A. No. As a matter of fact, it was a lot

7 more arduous booking it this way. We booked

8 individual trades, where typically you just book a

9 shell and Chase's allocation system fills the

10 shell.

11 Q. So why did you want to do it this way

12 then?

13 A. We needed specific assets to go. We

14 didn't want a random mix. We wanted -- these are

15 the -- this is the securities that were supposed

16 to go. This is what we needed to book.

17 Q. OK. So in other words, the excluded

18 securities you didn't want included in here, so

19 you had to go CUSIP by CUSIP?

20 A. Yes.

21 Q. OK. When you see towards the

22 right-hand column of this, when you see something

23 called product subtype -- do you see that?

24 A. Yes.

25 Q. Third-to-last column, and then it

Page 78	Page 79
<p>1 DENIG - CONFIDENTIAL</p> <p>2 refers to -- some of the entries say HIC and</p> <p>3 others say receipts.</p> <p>4 A. Yes.</p> <p>5 Q. Do you know what that means, those two</p> <p>6 entries?</p> <p>7 A. No.</p> <p>8 Q. Do you ever --</p> <p>9 A. I know what a HIC is, a HIC</p> <p>10 transaction, but why they are classified as such,</p> <p>11 I don't know.</p> <p>12 Q. See where it says -- toward the</p> <p>13 right-hand side of the column is a column entitled</p> <p>14 "Fin Rate." Finance rate, I assume?</p> <p>15 A. Yes.</p> <p>16 Q. And it has "4" under it for a lot of</p> <p>17 the entries. Do you see that?</p> <p>18 A. Yes.</p> <p>19 Q. Is that the repo rate?</p> <p>20 A. Yes.</p> <p>21 Q. So that's the repo rate for the</p> <p>22 September 18 repo?</p> <p>23 A. Yes.</p> <p>24 Q. And then further to the right you see</p> <p>25 something called clear date?</p>	<p>1 DENIG - CONFIDENTIAL</p> <p>2 A. Yes.</p> <p>3 Q. What is that?</p> <p>4 A. That's the date that the settlement</p> <p>5 took place.</p> <p>6 Q. So this is booked on the 18th. It</p> <p>7 says the 18th there?</p> <p>8 A. Well, it is booked on the 18th to</p> <p>9 settle on the 18th -- and it was settled on the</p> <p>10 18th.</p> <p>11 Q. Why is the first one booked on the</p> <p>12 23rd then?</p> <p>13 A. It could have been modified.</p> <p>14 Remember, I had to modify the amounts from</p> <p>15 forty-four two to 45 billion. That might have</p> <p>16 been the day that I did that transaction. It</p> <p>17 is -- because if you look in entry date, which is</p> <p>18 E/D --</p> <p>19 Q. E/D.</p> <p>20 A. -- that trade was entered -- trade</p> <p>21 date the 18th to settle on the 18th, but it was</p> <p>22 entered on the 23rd, so that had to be cleared on</p> <p>23 the 23rd.</p> <p>24 Q. And that's 8.7 billion dollars?</p> <p>25 A. Yes.</p>
Page 80	Page 81
<p>1 DENIG - CONFIDENTIAL</p> <p>2 Q. And tell me again why you were doing</p> <p>3 that on that date?</p> <p>4 A. Because we originally booked the trade</p> <p>5 cash value to total forty-four billion two. I was</p> <p>6 told to modify it to 45 billion.</p> <p>7 Q. And this was on the 23rd after the</p> <p>8 closing?</p> <p>9 A. Yes.</p> <p>10 Q. You don't know why you were told to</p> <p>11 modify it like that?</p> <p>12 A. Barclays physically paid us</p> <p>13 45 billion. That was why.</p> <p>14 Q. That's the distinction between the</p> <p>15 45 billion and forty-four two we talked about</p> <p>16 earlier?</p> <p>17 A. Yes.</p> <p>18 Q. If you turn to the second blue sheet,</p> <p>19 in the first -- the page right behind the first</p> <p>20 blue sheet in this document.</p> <p>21 A. Blue sheet.</p> <p>22 Q. It is about a third of the way down</p> <p>23 the document. Do you see -- I don't have a Bates</p> <p>24 number on this page, but it is a similar type of</p> <p>25 spreadsheet, and you will see, if you look at the</p>	<p>1 DENIG - CONFIDENTIAL</p> <p>2 net amount column, it adds down to 44.9 billion</p> <p>3 midway through it, and further down it adds to</p> <p>4 45 billion. Do you see that?</p> <p>5 A. I do.</p> <p>6 Q. Can you tell me why that's the case?</p> <p>7 A. I don't know.</p> <p>8 Q. If you look in the E/D column, now you</p> <p>9 see a lot of entries saying September 30, 2008.</p> <p>10 Do you see that?</p> <p>11 A. Um-hm.</p> <p>12 Q. Were you entering new data on</p> <p>13 September 30?</p> <p>14 A. No. We changed the end dates.</p> <p>15 Q. So E/D is end date?</p> <p>16 A. E/D is entry date. But the</p> <p>17 modifications were -- we needed to term the trade</p> <p>18 early, so they had to modify the original trade</p> <p>19 that we booked.</p> <p>20 Q. Why did you change the end date?</p> <p>21 A. Because it defaulted on the 22nd</p> <p>22 instead of the 25th, so we had to change the end</p> <p>23 date from the original repo date from the 25th to</p> <p>24 the 22nd.</p> <p>25 Q. Just so I understand, originally when</p>

Page 82

1 DENIG - CONFIDENTIAL
2 you booked it, it had an end date of the 25th?
3 A. Yes.
4 Q. And then on the 22nd, after you
5 learned it had defaulted on the 22nd, you changed
6 the end date to what?
7 A. To the 22nd.
8 Q. OK. And why did you do that, just --
9 A. Because that was the day that they
10 deemed the repo to be in default.
11 Q. OK. Now, the values on this, these
12 charts, where it says principal amount or even net
13 amount, where are those values taken from?
14 MR. SHAW: Objection, foundation.
15 A. MTS.
16 Q. So this is -- these are Lehman values?
17 A. Oh, no, no. I am sorry. These are --
18 these are all the -- these are the cash trades. I
19 booked these trades. I put the cash values on
20 these.
21 Q. When you say "these," are you talking
22 about the --
23 A. These groupings of trades that you are
24 talking about --
25 Q. Right.

Page 84

1 DENIG - CONFIDENTIAL
2 identification, as of this date.)
3 Q. The two exhibits, 135 and 233, appears
4 to be screen shots from what I believe to be your
5 MTS system or Lehman's MTS system, and I just have
6 a few questions about it after you have had a
7 chance to take a look at it.
8 A. OK.
9 Q. I think this has to do with what we
10 just talked about. If you look on Exhibit 135, it
11 says end date, 9/25/08. Do you see that?
12 A. Yes.
13 Q. And I realize there's different
14 CUSIPs, but we just took shots of the ones we
15 could get a clear shot of.
16 When it says 9/25, that's how this was
17 originally booked as an end date of 9/25; is that
18 right?
19 A. Yes.
20 Q. If you look at Exhibit 233, it looks
21 like the end date was changed to 9/19.
22 MR. SHAW: Objection, assumes facts
23 not in evidence.
24 Q. Do you see the entry end date 9/19/08?
25 A. Yes.

Page 83

1 DENIG - CONFIDENTIAL
2 A. -- were all in relation to the repo
3 transaction from the 18th.
4 Q. OK. So the 44.9 billion dollars that
5 you will see a net amount, it totals to 44.9 in
6 the upper half of the chart.
7 A. Yup.
8 Q. What is that?
9 A. That was the cash value of the
10 collateral that we were to have given Barclays in
11 this transaction, and that was the cash that they
12 paid us.
13 Q. And why does -- why is it in a
14 separate series of entries that total the 45.004
15 billion?
16 A. I don't recall, to be honest with you.
17 As far as my understanding, it was still supposed
18 to be 45.
19 Q. OK. Ms. Denig, I am going to show you
20 two or three exhibits that have been previously
21 marked. The first one I am going to give you is
22 Exhibit 135. And then I am going to mark as a new
23 exhibit a separate document, which we will mark as
24 Exhibit 233.
25 (Exhibit 233, screen shot marked for

Page 85

1 DENIG - CONFIDENTIAL
2 Q. Was it changed to 9/19? I thought you
3 previously said it was changed to 9/22?
4 A. It was changed to 9/19 originally
5 because that was the date we thought it was going
6 to be, and then we found out Barclays defaulted it
7 on the 22nd, and we had to modify it again to the
8 22nd.
9 Q. When was it changed to the 19th?
10 A. I don't recall the exact date.
11 Q. Could you tell from this chart, in the
12 upper right-hand column -- I'm sorry.
13 Is there any way to tell from this
14 chart when those entries were changed?
15 A. From the chart, yes. From here, no.
16 Q. Can you tell me from the chart when
17 the dates were changed to the 19th?
18 A. 23rd.
19 Q. So just so I understand it, originally
20 the end dates were the 25th?
21 A. Yes.
22 Q. On the 23rd, you originally changed
23 the end dates to the 19th because you thought that
24 was the date it defaulted?
25 A. Yup. Yes.

Page 86

1 DENIG - CONFIDENTIAL

2 Q. And eventually you were told to change

3 them to the 22nd as the default date?

4 A. Yes.

5 Q. Why all these changes?

6 A. Because the management told us to do

7 it. That Barclays defaulted the repo on the 22nd,

8 not the 19th. We originally thought the default

9 was on the 19th, so that's why we transacted it

10 that way.

11 Q. Who from Barclays management told you

12 this?

13 A. Not me personally, so I can't -- my

14 orders came from Jim.

15 Q. Do you know -- do you have any

16 understanding why all these changes?

17 A. Nope.

18 Q. Were you involved in any way in

19 assisting Barclays in preparing its opening

20 balance sheets after the closing of the

21 transaction?

22 A. No.

23 Q. Were you involved in any way in

24 assisting Barclays in preparing its financial

25 statements that reflect the Lehman/Barclays

Page 88

1 DENIG - CONFIDENTIAL

2 flip through it to see.

3 Q. Could you see whether you can

4 ascertain that.

5 A. Sure.

6 Q. Just to clarify the question maybe, we

7 put in blue sheets halfway through, and I'm not

8 sure they are entries on different dates or if you

9 can just tell me.

10 MR. SHAW: Do you know if this is a

11 complete --

12 MR. HINE: No, I don't. No, I don't.

13 I am just trying to get a sense of how the

14 system works.

15 A. As I see it, this is in chronological

16 order, but you definitely don't have a completed

17 list here. And the reason I could tell that is

18 from the entry dates, because there were multiple

19 changes to the original trade booking.

20 Q. OK. That's what you previously

21 described from originally the 18th and then to the

22 19th and then to the 22nd.

23 A. And then to change the money on the

24 trades from 44 to 45 million, so there was

25 multiple modifications to the original trade

Page 87

1 DENIG - CONFIDENTIAL

2 transaction?

3 A. No.

4 Q. Do you have any role now or during the

5 week of the 22nd in providing financial or --

6 information at all to the folks at Barclays who

7 prepare their financial statements?

8 A. No.

9 MR. SHAW: You need to speak up a

10 little bit.

11 A. No.

12 Q. So this change was just as a result

13 of -- changes of the end dates were as a result of

14 you being told by Jim Hraska that they wanted it

15 done?

16 A. Yes.

17 Q. Did you make any other changes to

18 the -- to this Exhibit 1 -- entries in Exhibit 134

19 after the closing?

20 A. This shows a history of all the

21 changes that were made along the way.

22 Q. So is this a chronological history?

23 In other words, if I read from the top to the

24 bottom, I am going in time?

25 A. I can't tell based on this. I have to

Page 89

1 DENIG - CONFIDENTIAL

2 booking.

3 Q. This is after the closing?

4 A. Yes.

5 Q. And other than the changing the

6 forty-four two to 45 billion, were there any other

7 changes made to the valuations of the securities

8 that were transferred to Barclays?

9 MR. SHAW: Objection.

10 A. No.

11 Q. While I am trying to find a couple of

12 exhibits, Ms. Denig, were you involved in any way

13 in the calculation of the 15c3 calculation as it

14 relates to collateral that was being transferred

15 to Barclays?

16 A. I was not.

17 Q. Do you have any understanding of how

18 that calculation was changed or modified during

19 the course of the week of the 15th?

20 A. No.

21 Q. I see you copied on an e-mail or two

22 involving the 15c3 calculation. Why would you be

23 copied on that?

24 MR. SHAW: Objection to form.

25 A. Regularly business as usual, I would

Page 90

1 DENIG - CONFIDENTIAL

2 be cc'd on what the 15c3 lock-up was going to be

3 so we would know how much Ginnie Mae collateral we

4 would have to lock up. That was an acceptable

5 form of payment or lock-up amount.

6 Q. Lock up meaning you couldn't use it

7 for any other purposes?

8 A. That's correct.

9 Q. Is it correct to say you would receive

10 periodic reports on what that amount was?

11 A. Weekly.

12 Q. And during the week of the 15th on

13 into the following week, do you recall any

14 discussions about redoing that calculation to see

15 if we can find any more assets to transfer to

16 Barclays?

17 A. No.

18 Q. Do you recall any efforts at all to

19 recalculate the 15c3 amount?

20 A. For what time period?

21 Q. During those two weeks.

22 A. I think they were doing it every day

23 at that point.

24 Q. Why?

25 A. Because of the nature of the issue

Page 92

1 DENIG - CONFIDENTIAL

2 record clear, you are pointing to Exhibit 233?

3 A. 233.

4 Q. That's the transaction that was

5 actually booked?

6 A. Yes.

7 Q. That's the screen shot?

8 A. Yes.

9 Q. And the other exhibit you pointed to

10 is 134, and that's what?

11 A. That's just the database that housed

12 this information, and it was spit out to you in a

13 report form.

14 Q. So the person entering the transaction

15 enters it on the screen similar to those in

16 Exhibit 233, right?

17 A. No. It goes from a trader input

18 screen, this -- and it has throughput to our

19 settlement system, which is this.

20 Q. So Exhibit 233 is your settlement

21 system?

22 A. Yes.

23 Q. And Exhibit 134 is just a large

24 database containing every entry?

25 A. Yes.

Page 91

1 DENIG - CONFIDENTIAL

2 going on.

3 Q. So would you be receiving reports

4 every day during that period?

5 A. Yes.

6 Q. Do you have any understanding of why

7 they were doing it every day?

8 A. No. No one told me.

9 Q. Did you have an understanding of

10 whether any assets were ultimately transferred to

11 Barclays as a result of changes in the 15c3

12 calculation?

13 A. I was not aware.

14 Q. OK. I want to show you a, several

15 spreadsheets, just because I want to understand

16 the genesis of what you were doing in the

17 different spreadsheets, because we have seen

18 dozens of them. I just want to try to get a sense

19 of that.

20 A. This exhibit, by the way, is a data

21 dump into a report writer. So it is -- this is

22 the transaction that was booked, this is just a

23 reflection of what it looked like in individual

24 columns.

25 Q. When you're -- we have to make the

Page 93

1 DENIG - CONFIDENTIAL

2 Q. OK. Let's mark this.

3 (Exhibit 234, document Bates stamped

4 10331692 with attachment marked for

5 identification, as of this date.)

6 Q. Ms. Denig, I am handing you a copy of

7 an exhibit marked 234, which is an e-mail stream

8 on Friday, the 19th, with an attached spreadsheet.

9 My question to you is, do you recall

10 this e-mail?

11 A. Yes.

12 Q. What do you recall about what's going

13 on at this time in connection with this e-mail?

14 A. They were trying to figure out what

15 prices that Lehman had at the time.

16 Q. Prices of what?

17 A. The market value of the individual

18 CUSIPs that were sent to Barclays.

19 Q. In connection with the September 18

20 repo?

21 A. Yes.

22 Q. So if you turn to the attachment,

23 which is a spreadsheet, were you involved in

24 preparing that spreadsheet?

25 A. No, I was not.

Page 94

1 DENIG - CONFIDENTIAL
2 Q. Who prepared this?
3 A. The technology guy from GFS.
4 Q. And do you know what this spreadsheet
5 is meant to reflect?
6 A. Details of the individual positional
7 data, with quantities and prices and the pricing
8 sources and what the total market values were.
9 Q. Of what pool of securities?
10 A. The securities that were sent to
11 Barclays.
12 Q. So we have talked about a lot of
13 different securities. Is this the securities --
14 A. That were physically sent to Barclays.
15 Q. On the --
16 A. 18th.
17 Q. When you say sent to Barclays, you
18 mean posted into the BoNY account on behalf of
19 Barclays in connection with the September 18 repo?
20 A. Yes.
21 Q. Where does this pricing data come
22 from? You will see to the left --
23 A. For this, it is GFS. But where GFS
24 gets its pricing from, it is multiple sources, and
25 that's defined here in the price source column,

Page 96

1 DENIG - CONFIDENTIAL
2 Q. Let's mark this.
3 (Exhibit 235, document Bates stamped
4 10253250 with attachment marked for
5 identification, as of this date.)
6 Q. Ms. Denig, I am handing you a copy of
7 a document marked Exhibit 235, which is an e-mail
8 stream from Friday, September 19, also with an
9 attachment.
10 My -- so my question to you is, have
11 you ever seen this e-mail?
12 A. I do.
13 Q. And what is this?
14 A. It was a download from GFS of all the
15 individual securities that we physically sent to
16 Barclays with what GFS determined is the market
17 value.
18 Q. So the market value prices on these
19 securities were determined by GFS?
20 A. Yes.
21 Q. And if we look on the first page of
22 this, of the attachment, do you see the little
23 chart of collateral, market value? Do you see
24 that?
25 A. Um-hm, yes.

Page 95

1 DENIG - CONFIDENTIAL
2 and then each system, TMS has a pricing hierarchy,
3 MTS has a pricing hierarchy.
4 Sometimes you see Chase is one of the
5 things. That's when there is no price in MTS or
6 TMS.
7 Q. So most of these prices are coming
8 from MTS, correct?
9 A. Yes.
10 Q. Do you know what use, to what use this
11 spreadsheet was put?
12 A. No.
13 Q. Do you recall discussions with
14 Mr. Forrest on Friday about the spreadsheet?
15 A. No.
16 Q. Why is he copying you? Why is he
17 sending the copy to you?
18 MR. SHAW: Objection, foundation.
19 A. I had the relationship with the
20 technology folks from GFS.
21 Q. So is he asking you to make sure they
22 got it right or is he --
23 A. He is making sure that they got it not
24 particularly right, but that they were able --
25 that Bill was able to provide the values.

Page 97

1 DENIG - CONFIDENTIAL
2 Q. And so is that -- what does that chart
3 reflect?
4 A. The market value for the collateral
5 that was -- it was Fed deliverable securities like
6 U.S. Treasuries, agencies, was worth 28 billion
7 based on the information that GFS came up with.
8 The collateral that was sent from the DTC
9 location, 074, valued 10 million.
10 The DTC -- the value of the collateral
11 that was in DTC location 636 was worth the
12 4 billion, and the TP cash was the 7 billion in
13 cash.
14 Q. So this totals to 49.9 billion. Is
15 that -- does that reflect all the collateral and
16 cash that was posted to the September 18 repo?
17 A. Not based on Friday, no. This was
18 missing data.
19 Q. What was it missing?
20 A. The stuff we did Friday morning and
21 any subsequent data, any other subsequent
22 deliveries.
23 Q. So as of Friday, this is the amount
24 that had been posted to the September 18 repo?
25 A. Yup, yes.

Page 98

1 DENIG - CONFIDENTIAL

2 Q. And when you see --

3 A. That little summary was my summary

4 based on this information.

5 Q. Well, here is my question. I am

6 trying to figure out what's the difference between

7 Exhibit 235 and Exhibit 234.

8 A. What's 235? And 234?

9 Q. 234 is the one we previously looked

10 at.

11 A. I don't think anything. I think it

12 was the same stuff. I think I took the same file

13 and just made it more in a way that people

14 understood what it was. Deleted some columns and

15 only included the things I needed.

16 Q. Well, it is ten times as thick as

17 Exhibit 234. How could it be the same data?

18 A. This is the whole file here?

19 Q. That's what we received. I don't know

20 if it was --

21 A. Oh, then this. This is definitely not

22 the whole file.

23 Q. That was my question.

24 A. Yeah.

25 Q. So 234 is incomplete?

Page 100

1 DENIG - CONFIDENTIAL

2 from our GFS system.

3 Q. That's the GFS system that you guys

4 use in the regular course of business?

5 A. It is.

6 But market values, market value is

7 only needed to determine exposure with clients,

8 not really any other value.

9 With repos, it is all about the cash

10 that gets actually transferred to and from. So we

11 always cared about the physical principal value of

12 what was transacted on the day that the trade

13 settled.

14 Q. I'm not sure I understood that. You

15 mean the party receiving the collateral cares how

16 much it is worth, they have a haircut associated

17 with it?

18 A. And they have like an everyday

19 exposure calculation that gets done, so that's the

20 only thing where market value comes into play.

21 Q. Well, this is the market value that

22 your GPS system --

23 A. GFS.

24 Q. GFS system spit out when you asked for

25 a list of all the collateral that had been posted

Page 99

1 DENIG - CONFIDENTIAL

2 A. Yes.

3 Q. 235, Exhibit 235 is a complete file

4 reflecting the collateral that was posted to this

5 September 18 repo?

6 A. It was a complete file based on the

7 stuff that actually physically got delivered, yes.

8 Q. As of Thursday --

9 A. As of Thursday evening.

10 Q. And the 7 billion for TP cash is the

11 amount of the box loan that went to that repo?

12 A. Yes, it was.

13 Q. As to this set of collateral, and I'm

14 not talking about stuff that was transferred

15 later, as to this set of collateral, did the

16 valuation of any of it change over the weekend?

17 A. I have no idea.

18 MR. SHAW: Objection to form.

19 A. I have no idea.

20 Q. Because I see --

21 A. Just to clarify, like the market

22 values that are done here is just based on what we

23 are getting spitted out. It is not anything that

24 we are determining. It is not anything that we

25 are manipulating. It was literally a data dump

Page 101

1 DENIG - CONFIDENTIAL

2 to the September 18 repo, correct?

3 A. That's correct.

4 Q. That's the market value that was

5 carried on your system in the normal course of

6 business?

7 A. For that day, yes.

8 Q. And so did you adjust it, did you

9 adjust the market value based on the amount of

10 cash that was paid for these securities?

11 A. I did not touch the market value of

12 anything. This is literally a determined field

13 that was spit out to us. We didn't touch that.

14 Q. I guess I am trying to understand your

15 explanation previously about all that matters is

16 the amount of cash.

17 A. But the cash was booked as 45 billion.

18 We delivered everything with zero value. You know

19 that.

20 Q. So you're saying when you posted the

21 transaction, you posted the actual amount of cash

22 and ascribed a zero value to the collateral?

23 A. That's correct.

24 Q. OK. So again just taking this list of

25 collateral that you assembled either Thursday

Page 102

1 DENIG - CONFIDENTIAL
2 night or Friday morning and not including the
3 things that were transferred later, right, but to
4 your knowledge, did this list of collateral change
5 at all over the weekend?
6 MR. SHAW: Just so we are clear, you
7 are indicating Exhibit 235?
8 MR. HINE: Yes.
9 MR. SHAW: Objection to form.
10 A. Why would it -- why and how could it
11 change? This was physically delivered to the
12 client.
13 Q. This list was physically delivered to
14 the client?
15 A. Yeah.
16 Q. By the client, you mean Barclays?
17 A. Barclays.
18 Q. Ms. Denig, I see you reference in some
19 e-mails to something called a depot analysis.
20 What is that?
21 A. I don't know, I have to see it.
22 Q. Do you have a recollection of the term
23 "TMS depot analysis"?
24 A. Yes.
25 Q. What do you recall? While we are

Page 104

1 DENIG - CONFIDENTIAL
2 it has a lengthy spreadsheet attached to it.
3 Have you ever seen this document
4 before?
5 A. This is -- this document was provided
6 to us by the Treasury, Rob Azerad and John Vergel
7 de Dios, and I just forwarded it to Jim.
8 Q. And what is your understanding of what
9 this document is supposed to reflect?
10 A. Everything we knew in some depot that
11 was still belonging to LBI.
12 Q. Depot meaning --
13 A. Depot.
14 Q. What is that?
15 A. Depository -- I don't know how to
16 explain it to you. Box, they call it boxes.
17 Q. Does that include the 074 box?
18 A. Yes.
19 Q. Does it include the 636 box?
20 A. Yes, it does.
21 Q. And any other boxes or possible
22 location where Lehman could have some securities,
23 correct?
24 A. Yes.
25 Q. So this, does this depot analysis, is

Page 103

1 DENIG - CONFIDENTIAL
2 pulling out the chart.
3 A. It was securities that we were to --
4 where we thought we were able to determine as
5 unencumbered, and then a -- give it to the
6 clearance folks to look into DTC terminals
7 directly to determine whether or not it was in
8 fact unencumbered.
9 Q. So this is in connection with the
10 search for unencumbered assets that were
11 eventually going to be transferred to Barclays?
12 A. Yes.
13 Q. So just so --
14 A. I think.
15 Q. See if I understand. A depot --
16 A. I don't know, to be honest with you.
17 I really shouldn't have answered it.
18 Q. Let me have the document.
19 (Exhibit 236, document Bates stamped
20 10328102 with attachment marked for
21 identification, as of this date.)
22 Q. Ms. Denig, I am handing you a copy of
23 a document marked as Exhibit 236, which is a
24 September 20th e-mail from yourself, and the
25 subject is "TMS Depot Analysis Detail, Main." And

Page 105

1 DENIG - CONFIDENTIAL
2 this the starting point for the effort to locate
3 unencumbered assets?
4 A. Yes, it was.
5 Q. So in other words, whoever was engaged
6 in that effort would look through these securities
7 and try to figure out which ones were
8 unencumbered?
9 A. Yes.
10 Q. We have to be careful not to talk over
11 each other when we are answering questions.
12 Ms. Denig, I am handing you a copy of
13 the document previously marked as Exhibit 145B.
14 If you could take a moment to look at it.
15 Have you had a chance to look at it?
16 A. Um-hm.
17 Q. Have you ever seen this document
18 before?
19 A. Yes.
20 Q. Can you tell me what it is?
21 A. It is what we determined that night to
22 be what we felt, based on the information that we
23 had at the time, to be unencumbered assets.
24 Q. This is Sunday night?
25 A. Saturday night to Sunday morning.

Page 106

1 DENIG - CONFIDENTIAL

2 Q. So it is Saturday night, September 20?

3 A. September 20 to 4:30 in the morning on

4 Sunday, the 21st.

5 Q. So this, it is entitled "Depot

6 Analysis," and who was making the determination

7 that you just described?

8 A. Do you mean whether these assets were

9 available?

10 Q. I thought you just said that this is a

11 spreadsheet reflecting what you thought as of the

12 end of Saturday, the 20th, might be unencumbered

13 assets; is that right?

14 A. Yes.

15 Q. Who made that determination?

16 A. Jim Hraska, myself and Bill Panneillo.

17 Q. And is it in fact -- let me back up.

18 If you turn to page 2, you will see a

19 small spreadsheet which totals market value of

20 1.19 billion. Do you see that?

21 A. Yes.

22 Q. Is that the 1 billion and change that

23 you discussed earlier in your testimony that was

24 transferred to Barclays on Friday?

25 A. No, it was not.

Page 108

1 DENIG - CONFIDENTIAL

2 A. For these.

3 Q. For the ones that -- on this chart?

4 A. Yes.

5 Q. And were these, were these 1.19

6 billion in assets eventually transferred to

7 Barclays?

8 MR. SHAW: Objection, foundation.

9 A. I don't know for sure.

10 Q. They could have been but you don't

11 know either way?

12 A. That's right.

13 Q. You can't tell from this chart?

14 A. No.

15 Q. Let's try this.

16 (Exhibit 237, document Bates stamped

17 10252914 with attachment marked for

18 identification, as of this date.)

19 Q. Ms. Denig, I am handing you a copy of

20 a document marked Exhibit 237, which is an e-mail

21 dated September 22, which forwards an earlier

22 e-mail in which you are the author and also

23 attaches a chart of some -- a spreadsheet of some

24 sort.

25 After you have had a chance to look at

Page 107

1 DENIG - CONFIDENTIAL

2 Q. How is this different?

3 A. This is in addition to that.

4 Q. All right. So this, just so I

5 understand the sequence, that 1 billion and change

6 is transferred on Friday, and then there is a

7 continuing effort to find unencumbered assets

8 after that?

9 A. Yes.

10 Q. This is as of Saturday night, you or

11 whoever had determined that there was a

12 1.19 billion in unencumbered assets available?

13 A. As far as we could tell from the

14 information that we had.

15 Q. And did you find further unencumbered

16 assets later?

17 A. I wasn't involved after this, as far

18 as trying to locate them. I was involved in

19 trying to determine the ones that we felt were,

20 and work with settlements to determine whether or

21 not they were in fact, but any further

22 determination of assets, I was not a part of

23 anymore.

24 Q. I thought you said you were involved

25 up until the 29th and 30th of September?

Page 109

1 DENIG - CONFIDENTIAL

2 that, let me know.

3 A. OK.

4 Q. Have you had a chance to look at that?

5 A. I did.

6 Q. Have you seen this document before?

7 A. I have.

8 Q. Can you tell me what it is?

9 A. It is a file from BoNY telling us what

10 was pledged Friday morning.

11 Q. So this chart, this spreadsheet was

12 prepared by BoNY?

13 A. Yes.

14 Q. And the values on here are values that

15 BoNY assigned to the securities in question?

16 MR. SHAW: Objection, foundation.

17 A. I assume so.

18 Q. Now, again I'm just trying to

19 understand it in terms of all the other pools of

20 securities we have been talking about. This is

21 what BoNY reports was transferred to its account

22 from Lehman on Friday?

23 A. Yes.

24 Q. Is this -- to your understanding, is

25 this the 1 billion plus securities that we talked

Page 110

1 DENIG - CONFIDENTIAL
2 about earlier?
3 A. Yes.
4 Q. Is that the only pool of securities
5 that you know of that was transferred on Friday?
6 A. Yes.
7 Q. OK, OK. Do you know why BoNY was
8 sending you this?
9 A. We asked for it.
10 Q. And what -- why did you want it?
11 A. Because we wanted to be able to
12 reflect on, through our reconciliation process,
13 which securities physically did go to Barclays.
14 Q. As to the securities that went on
15 Friday morning, was there any difference between
16 the pool of securities that BoNY had identified
17 and the ones that you thought went?
18 A. No, I don't know if I can answer that
19 question.
20 Q. Well, in the reconciliation -- you had
21 a reconciliation process?
22 A. Yes.
23 Q. After the 22nd, between -- to try to
24 reconcile the securities that had been transferred
25 in connection with the September 18 repo; is that

Page 112

1 DENIG - CONFIDENTIAL
2 A. No, there was not.
3 Q. So just those two days worth of
4 transfers?
5 A. Yes.
6 Q. I apologize about walking through all
7 these spreadsheets, but I am trying to understand
8 what happened during that week.
9 OK, Ms. Denig, I am handing you a copy
10 of an exhibit marked 146B, which is an e-mail with
11 several spreadsheets attached to which you were a
12 recipient.
13 Have you ever seen that document
14 before?
15 A. Um-hm.
16 MR. SHAW: You need to say yes or no.
17 A. Yes.
18 Q. What is this document?
19 A. To be honest with you, right from the
20 get-go, we are like what are you talking about?
21 We knew five securities being reconciled, so I
22 don't know what his list, what he is calling
23 Lehman referred to.
24 Q. "He" meaning Mr. Azerad?
25 A. Yes.

Page 111

1 DENIG - CONFIDENTIAL
2 right?
3 A. Yes.
4 Q. And you were involved in that?
5 A. Yes.
6 Q. Did you ultimately successfully
7 reconcile all the transfers?
8 A. All but five I think.
9 Q. And was there a great disparity
10 between what BoNY had reported and what Lehman had
11 reported?
12 A. No.
13 Q. So it was fairly straightforward --
14 A. It was a three-way rec. It was a rec.
15 that BoNY sent us, a rec. that Barclays knew on
16 their books and Lehman knew on their books, so it
17 was all three reconciled. There was five
18 discrepancies originally.
19 Q. The scope of the reconciliation was
20 the assets that were transferred on the Thursday,
21 the 18th, as well as what was transferred on
22 Friday, the 19th?
23 A. Yes, it was.
24 Q. Were there any other transfers that
25 were part of that reconciliation?

Page 113

1 DENIG - CONFIDENTIAL
2 Q. Do you recall a discussion about
3 reconciling 1,165 CUSIPs?
4 A. No. I think we alleviated the fact
5 that the records that he had was to try to
6 determine what he was talking about, because it
7 wasn't the reconciliation that we had already
8 performed at this particular time, and we were
9 reconciled.
10 Q. This is September 28, so in your view,
11 you and Mr. Hraska had already reconciled the
12 transactions from the Thursday and Friday,
13 correct?
14 A. Yes.
15 Q. So this is a --
16 A. With Barclays, with BoNY, so --
17 Q. This is after the fact, Mr. Azerad
18 raising an issue?
19 A. Um-hm.
20 Q. How did it end up?
21 A. That I don't recall actually.
22 Q. If you turn to behind the first blue
23 sheet, you will see a kind of summary spreadsheet.
24 Do you see that?
25 Do you have an understanding of what

Page 114	Page 115
<p>1 DENIG - CONFIDENTIAL</p> <p>2 this chart means?</p> <p>3 A. I have a vague recollection of seeing</p> <p>4 it. I don't remember what it was about.</p> <p>5 Q. Does this whole -- is it fair to say</p> <p>6 this whole e-mail proved not to be a very big</p> <p>7 issue and was reconciled in the end?</p> <p>8 A. I would believe so, yes.</p> <p>9 Q. Maybe you could answer me a question</p> <p>10 while we wait for the exhibit. I see -- I am</p> <p>11 fascinated with the titles of the different</p> <p>12 spreadsheets that we see here, and we are trying</p> <p>13 to figure out what they are.</p> <p>14 I see some spreadsheets entitled</p> <p>15 "Book 1" and "Book 2," "Book 3," all the way up to</p> <p>16 Book 10. Do you recall what they were?</p> <p>17 A. Yes. Book 1, when you create a</p> <p>18 spreadsheet and you don't save it with any</p> <p>19 particular name, it will save as Book 1, and if</p> <p>20 you had multiple books open on your machine, it</p> <p>21 will save whatever sequence of numbers there is or</p> <p>22 there are at the time.</p> <p>23 Q. It is not booking transactions, it is</p> <p>24 a name that the system ascribes to it?</p> <p>25 A. Automatically.</p>	<p>1 DENIG - CONFIDENTIAL</p> <p>2 Q. OK, I've got you. That is no longer</p> <p>3 an issue in the case anymore.</p> <p>4 Let's mark this.</p> <p>5 (Exhibit 238, document Bates stamped</p> <p>6 BCI-EX4324 with attachment marked for</p> <p>7 identification, as of this date.)</p> <p>8 Q. Ms. Denig, I am handing you a copy of</p> <p>9 a document marked 238, which is an e-mail dated</p> <p>10 September 27. The subject is "Fed Collateral with</p> <p>11 Original Face." Take a minute and take a look at</p> <p>12 it.</p> <p>13 Have you had a chance to look at it?</p> <p>14 A. Yes.</p> <p>15 Q. Have you ever seen this before?</p> <p>16 A. Um-hm, yes.</p> <p>17 Q. What is it?</p> <p>18 A. The original download that GFS gave or</p> <p>19 when -- Paolo's group was doing the same type of</p> <p>20 reconciliation that we were with the more senior</p> <p>21 folks at Barclays. Mine were with the ops folks</p> <p>22 at Barclays. They -- the file that -- when they</p> <p>23 downloaded it, they didn't include something</p> <p>24 called original face. So when you have a mortgage</p> <p>25 security, you have an original face, and then</p>
Page 116	Page 117
<p>1 DENIG - CONFIDENTIAL</p> <p>2 there is a factor associated to it, and then a</p> <p>3 current face and then the principal value or</p> <p>4 market value.</p> <p>5 Here our system, the GFS system only</p> <p>6 took in the current face and not the original</p> <p>7 face, or it was a separate column. It was just</p> <p>8 not a column that they deemed -- they took in when</p> <p>9 they did, built the query in GFS.</p> <p>10 Q. Face meaning face value?</p> <p>11 A. Yes, par value or whatever.</p> <p>12 Q. So this was Mr. Tonucci asking you to</p> <p>13 provide him some additional data on the face</p> <p>14 value, the original face values of certain</p> <p>15 securities that he was trying to reconcile?</p> <p>16 A. Yes. So basically they took the</p> <p>17 original list and said, they had a column called</p> <p>18 "Quantity," OK, but the quantity was technically</p> <p>19 current face, which would be the par value times</p> <p>20 any factor, and then that would deposit into the</p> <p>21 column named "Quantity" in GFS.</p> <p>22 So they needed to include "Original</p> <p>23 Face" as the column heading, so I just did it. I</p> <p>24 literally took the same query.</p> <p>25 Q. Do you know why they wanted that?</p>	<p>1 DENIG - CONFIDENTIAL</p> <p>2 A. Because I think that was -- ended up</p> <p>3 being the 1100 discrepancies they had with</p> <p>4 Barclays.</p> <p>5 Q. You are referring to the 1100</p> <p>6 discrepancies on Exhibit 146?</p> <p>7 A. Yes.</p> <p>8 Q. So just to understand this</p> <p>9 reconciliation process, you and Mr. Hraska were</p> <p>10 involved in -- am I correct to say you and</p> <p>11 Mr. Hraska were involved in reconciling between</p> <p>12 the three entities the CUSIPs and actual pool of</p> <p>13 securities that went over?</p> <p>14 A. It was me.</p> <p>15 Q. OK. And did you -- did your</p> <p>16 reconciliation involve at all the pricing for</p> <p>17 those securities?</p> <p>18 A. No, it did not.</p> <p>19 Q. Or valuation of those securities?</p> <p>20 A. It did not.</p> <p>21 Q. Was Mr. Tonucci's crew engaged in a</p> <p>22 reconciliation that had to do with the valuation</p> <p>23 of these securities?</p> <p>24 A. I believe they did.</p> <p>25 Q. And were you involved in that at all?</p>

Page 118

1 DENIG - CONFIDENTIAL

2 A. I was not.

3 Q. Is it fair to say that you were

4 providing data to Mr. Tonucci as he needed it, but

5 you weren't involved in reconciling the prices of

6 the securities that went over to Barclays?

7 A. That's correct.

8 Q. Let's mark this, please.

9 (Exhibit 239, document Bates stamped

10 BCI-EX13384 through 86 marked for

11 identification, as of this date.)

12 Q. Ms. Denig, I am handing you a copy of

13 a document marked Exhibit 239, which is an e-mail

14 stream from September 23, 2008. I will note that

15 you are not on this e-mail stream. But I did have

16 a question about it.

17 In particular, my question is going to

18 have to do with the e-mail from Mr. Vergel de Dios

19 on the first page.

20 Have you had a chance to look at the

21 document?

22 A. Yup. I don't understand it, to be

23 honest with you.

24 Q. I just wanted to ask you a question

25 about the sentence in the middle of the page where

Page 120

1 DENIG - CONFIDENTIAL

2 was current face and not the original par value.

3 In order -- the reconciliation that I

4 did was original par value. What they were trying

5 to determine included a factor -- the factors,

6 which was wrong, which I think they subsequently,

7 very quickly realized that.

8 Q. So this was --

9 A. Based on some communications.

10 Q. This eventually became --

11 A. A non-event.

12 Q. A non-event? OK.

13 Were you involved, Ms. Denig, in

14 preparing what has been called Schedule A in

15 connection with the Barclays/Lehman sale

16 transaction?

17 A. I was not involved in preparing it,

18 no.

19 Q. Do you know what it is?

20 A. I was under the assumption it was

21 regarding the repo transaction or the collateral

22 that went in the repo.

23 Q. Do you have any other understanding?

24 A. No.

25 Q. Did you ever hear of anything called

Page 119

1 DENIG - CONFIDENTIAL

2 it says, "We do see a large position break which

3 leads to the conclusion that there are price

4 factor differences between Lehman and Barclays,"

5 and then it is followed by a chart. Do you see

6 that?

7 A. OK.

8 Q. Do you see where I am referring to?

9 A. The 19 billion you're talking about?

10 Q. Well, there is a chart that shows

11 position, 92 billion, and then there is a Barclays

12 position of 92 billion, and there is a Lehman

13 position of 72 billion. Do you see that?

14 A. Yes.

15 Q. Do you have any understanding of what

16 this is reflecting?

17 A. I believe it is because they did not

18 take into account quantity. They were taking into

19 account current value, which is a --

20 Q. Who is "they"?

21 A. Paolo Tonucci's team.

22 When querying the data from GFS, you

23 have to define the fields that you are going to

24 take in. If they were taking in quantity, it was

25 current -- like the definition GFS had was that it

Page 121

1 DENIG - CONFIDENTIAL

2 the clarification letter in connection with the

3 Lehman/Barclays transaction?

4 A. No.

5 Q. Did you have any understanding that

6 Schedule A was a schedule to a clarification

7 letter of any kind?

8 A. No.

9 Q. What is -- would it be fair to say

10 that your role in connection with what became

11 Schedule A was simply preparing the spreadsheets

12 we have been going over?

13 A. In most cases I did not prepare them.

14 Q. OK.

15 A. I received them.

16 Q. OK, but -- let me try it this way.

17 Other than what you have described for us today as

18 to your role during that week, particularly

19 Thursday, Friday, on into the following week, did

20 you have any role in preparing what later became

21 known as Schedule A?

22 A. I guess so.

23 Q. In what way?

24 A. Because I was -- after the

25 reconciliations, then we got our files from BoNY

Page 122

1 DENIG - CONFIDENTIAL
2 as to what they physically received. That is what
3 was communicated upstream to management.
4 Q. So you were -- wasn't that part of the
5 reconciliation process?
6 A. Um-hm, yes.
7 Q. So BoNY communicated to you what they
8 had received, you compared that to what you
9 thought you had sent --
10 A. Was booked.
11 Q. And Barclays compared it to what they
12 recorded as well?
13 A. That's correct.
14 Q. So the net effect, the net result of
15 that reconciliation process is a list of
16 securities that all parties agreed were
17 transferred on either Thursday or Friday of the
18 week of the 15th?
19 A. That's correct.
20 Q. And is it your understanding that that
21 becomes Schedule A?
22 A. That was my understanding.
23 Q. I think we might have asked this
24 earlier. Do you have any understanding of what
25 Schedule B is to the clarification letter?

Page 124

1 DENIG - CONFIDENTIAL
2 Q. Did you ever have any discussions with
3 folks at Barclays about why they didn't want those
4 assets?
5 A. No, I did not.
6 (Exhibit 240, document Bates stamped
7 BCI-EX18553 with attachment marked for
8 identification, as of this date.)
9 Q. Ms. Denig, I am handing you a copy of
10 an exhibit marked 240, which is an e-mail dated
11 Monday, the 29th, from yourself to several people
12 with an attached file.
13 And after you have had a second to,
14 minute to look at it, I want to ask you questions
15 about it.
16 A. OK.
17 Q. Have you ever seen this document
18 before?
19 A. Yes.
20 Q. What is this?
21 A. This is the list of CUSIPs that were
22 reconciled between Lehman and Barclays as part of
23 the 9/18 repo transaction.
24 Q. This is -- is this what we previously
25 talked about, you had this three-way

Page 123

1 DENIG - CONFIDENTIAL
2 MR. SHAW: Asked and answered.
3 A. No.
4 Q. Did you have any role in assembling
5 pieces of information for anything that you
6 understood to be Schedule B?
7 A. No.
8 MR. SHAW: Asked and answered.
9 Q. A follow-up on a question we had
10 earlier. If I could show you a copy of what has
11 been previously marked as Exhibit 143B. I'm not
12 sure if you have ever seen this before, Ms. Denig,
13 but my question has to do with the spreadsheet
14 that's attached to this e-mail and whether you
15 have ever seen that before.
16 Have you ever seen that spreadsheet
17 before?
18 A. I have.
19 Q. What is that?
20 A. It was a list given to us by Barclays
21 saying that these are the assets they don't want.
22 Q. So this is the list of excluded assets
23 that you were not allowed to put into the
24 September 18 repo?
25 A. That's correct.

Page 125

1 DENIG - CONFIDENTIAL
2 reconciliation, and this is the agreed-upon list
3 of the securities that were transferred on the
4 Thursday and Friday of the week of the 15th?
5 A. Yes.
6 Q. And it says here master file of CUSIP,
7 so is this -- is it your understanding that this
8 is the final list of the securities that were
9 transferred on those two dates?
10 A. Yes, it was.
11 Q. You see in this chart it says market
12 price? Do you see that?
13 A. Yup.
14 Q. Where did that price come from?
15 A. GFS.
16 Q. That's the Lehman GFS price?
17 A. Yes.
18 Q. OK. Thank you.
19 Let's mark this, please.
20 (Exhibit 241, document Bates stamped
21 BCI-EX17607 and 08 with attachment marked
22 for identification, as of this date.)
23 Q. I am handing you a copy of a document
24 marked as Exhibit 241, which is an e-mail from
25 Monday, September 29, and an attached spreadsheet.

Page 126

1 DENIG - CONFIDENTIAL
2 When you get a chance to look at it, let me know.
3 I have a question or two about it.
4 Have you had a chance to look at that?
5 A. I have.
6 Q. Have you ever seen this before?
7 A. Yes.
8 Q. Could you tell me what it is?
9 A. It is CUSIPs that we determined to be
10 unencumbered on the weekend of -- or the 20th,
11 Saturday, the 20th, and the 21st. This was then
12 sent to our securities clearance area for them to
13 determine whether or not in fact they were
14 unencumbered, and then they went ahead and made
15 delivery of these.
16 Q. So this -- am I correct to say this --
17 you will see the spreadsheet reflects 269 million
18 dollars worth of securities, correct,
19 approximately?
20 A. Market value.
21 Q. Yes.
22 A. Yes.
23 Q. And those securities were, in fact,
24 transferred to Barclays?
25 A. As my -- I believe they were.

Page 128

1 DENIG - CONFIDENTIAL
2 unencumbered?
3 A. Yes.
4 Q. And now, when you see toward the top,
5 there is an e-mail from Mr. Hraska saying, "Here
6 is additional collateral from 636 today delivered
7 by the administrator."
8 And maybe you have answered this
9 already. Is this the -- you had previously talked
10 about a delivery of collateral to Barclays on the
11 29th, right?
12 A. Yes.
13 Q. And so this is the collateral that was
14 delivered on the 29th, to your understanding?
15 A. Yes.
16 MR. HINE: We can take a break for
17 lunch.
18 (Recess)
19
20
21
22
23
24
25

Page 127

1 DENIG - CONFIDENTIAL
2 Q. Is this the sum total of the
3 securities that were found in the 636 box in
4 connection with the unencumbered, search for
5 unencumbered assets that we talked about before?
6 MR. SHAW: Objection to form.
7 A. Yes, it was.
8 Q. Do you recall after this whether any
9 further securities were found in the 636 box?
10 A. No idea.
11 Q. No?
12 You see in the e-mail toward the
13 bottom, it talks about getting the chill listed on
14 two CUSIPs. Do you see that?
15 A. Yes.
16 Q. What does that refer to?
17 A. It is an action that DTC takes with
18 regard to certain securities. If -- when they put
19 something on a chill, that means that they are
20 subject to a corporate action. Once the corporate
21 action is either deemed to not be valid or they
22 are not going to -- or they have transacted the
23 corporate action, they take it off of chill and
24 now it is available for deliveries.
25 Q. So if the chill is removed, it becomes

Page 129

1 DENIG - CONFIDENTIAL
2 AFTERNOON SESSION
3 12:48 p.m.
4 BY MR. HINE:
5 Q. Good afternoon, Ms. Denig.
6 A. Good afternoon.
7 Q. Hope you had a nice lunch.
8 A. I did.
9 Q. If you wouldn't mind, I would like to
10 continue through a parade of a couple of
11 documents, ask you some questions about them.
12 Let's mark this as 242.
13 (Exhibit 242, document Bates stamped
14 BCI-EX17576 marked for identification, as of
15 this date.)
16 Q. I am handing you a copy of a document
17 marked as Exhibit 242, which is an e-mail dated
18 September 29th from Mr. Hraska, cc to you. If you
19 could take a minute and just review it.
20 A. OK.
21 Q. Have you had a chance to look at that?
22 A. Yes.
23 Q. Have you seen this document before?
24 A. Yes.
25 Q. What is this document about?

Page 130

1 DENIG - CONFIDENTIAL

2 A. It is just about how we are going to

3 adjust Lehman's books and records for the fact

4 that the defaulted repo no longer exists on their

5 books.

6 Q. Do you see the title or subject talks

7 about balance sheet reduction? What does that

8 mean?

9 A. It means that as a reverse repo or I

10 mean as a repo transaction, because it is a loan,

11 the inventory still sits on the balance sheet of

12 Lehman Brothers. What we are trying to do here

13 is, the fact that Barclays took ownership of those

14 securities due to the defaulted repo, we had to

15 remove those assets from Lehman's books.

16 Q. So this is removing them from Lehman's

17 balance sheet?

18 A. That's correct.

19 Q. Is this part of helping Barclays

20 establish an opening balance sheet for the Lehman

21 assets it has now acquired?

22 A. No. This was strictly on the Lehman

23 side.

24 Q. Did the result of this exercise get

25 somehow translated into Barclays' books?

Page 132

1 DENIG - CONFIDENTIAL

2 was completed by early in that week.

3 A. Yes, it was.

4 Q. So what is this referring to?

5 A. I think he was just listing out all

6 the steps that are taken to do this.

7 Q. So that step had been completed by

8 Monday, the 29th?

9 A. It was.

10 Q. Next it talks about unwinding cash

11 only, I guess that means cash only trades in MTS

12 that represent triparty cash total. Do you see

13 that?

14 A. Yes.

15 Q. What does that mean?

16 A. The way that we booked the

17 transaction, where the securities were booked for

18 free for the individual CUSIPs, and we represented

19 the cash via the shell tickets.

20 Q. Um-hm.

21 A. Those are considered the cash only

22 ticket, so they had a problem reconciling to Chase

23 because Chase wasn't giving us certain records as

24 to what the -- all the cash unwinding was about.

25 I wasn't involved in that

Page 131

1 DENIG - CONFIDENTIAL

2 MR. SHAW: Objection.

3 A. No.

4 Q. Did you have any role -- I think we

5 might have covered this before. Did you have any

6 role in how Barclays accounted for the

7 transaction?

8 A. No, I did not.

9 Q. Did you have any role in how Barclays

10 accounts for the securities that it acquired in

11 the -- through the September 18 repo?

12 A. No.

13 Q. Do you know how Barclays values the

14 securities that it acquired through the

15 September 18 repo?

16 A. No.

17 Q. You see in this e-mail there is a

18 section called "Fed Eligible Collateral"? Do you

19 see that?

20 A. Yes.

21 Q. The first item talks about reconciling

22 the Fed deliverable securities sent on the 18th.

23 Do you see that?

24 A. Yes.

25 Q. I thought you said your reconciliation

Page 133

1 DENIG - CONFIDENTIAL

2 reconciliation. That was done by cash management.

3 Q. So that the cash only trades are the

4 way you booked them in Exhibit 134 that we talked

5 about earlier?

6 A. Yes.

7 Q. Now, unwinding them has to do with

8 problems associated with Chase?

9 A. Yes.

10 Q. And you weren't involved in that?

11 A. I was not.

12 Q. Do you have any understanding of how

13 they are unwound?

14 A. The same way we did ours, just putting

15 the end dates of the 22nd on all the transactions

16 and then reconciling the cash that physically

17 moved from Barclays that came into Chase, and then

18 it is supposed to clear it against the actual

19 securities that we have booked at Lehman.

20 That reconciliation, because it is not

21 a traditional delivery versus payment type of

22 scenario, that they need you to represent that

23 somehow. I don't know how they did their

24 reconciliation, though.

25 Q. You weren't involved in their --